Tourism 2000: Mobilizing Investment for a Global Industry

Presentations to the Second Advanced Policy Forum on Tourism

SIMON FRASER UNIVERSITY AT HARBOUR CENTRE
MAY 11–12, 1989

ECONOMIC & REGIONAL DEVELOPMENT AGREEMENT

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Mobilizing Investment for a Global Industry

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Simon Fraser University at Harbour Centre
Vancouver, B.C.
May 11–12, 1989

Natural Resources Management Program and
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Simon Fraser University

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Introduction

Paul St. Pierre
Director of Tourism Programs, Continuing Studies
Simon Fraser University at Harbour Centre
Vancouver, B.C.

British Columbia possesses substantial natural and cultural resources which attract visitors from around the world. We are extremely well positioned to benefit from dramatic growth in travel from the Asia-Pacific and other regions. However our frontier charm will not in itself sustain the tourism industry in a future in which international transportation is easy and affordable. While more tourists are able to come here, they are also able to go elsewhere. We now compete directly with the rest of the world as a destination, both for domestic and foreign tourists.

Advances in transportation and communications have also internationalized capital markets. Investors and financial institutions in Asia, the United States, and Europe are now regular participants in local businesses and development projects. They bring to our industry visions of different markets and strategies, challenging our existing development models and injecting new competition into our domestic financial industry.

The tourism industry is therefore at a major point of transition in British Columbia, and in Canada generally. New concepts in the industry include innovative multiple-use projects which improve the financial cash flow during development and dampen seasonality during operations. New concepts also include different partnerships between investors and managers, non-traditional securities and sources of capital, and other innovations. Tourism 2000 was designed to explore these trends and create a vision, for the participants, of the next generation of business opportunities in tourism, and its implications for sophisticated management. The event brought professionals from tourism, finance, land development, management services, other related industries, and government together in a single forum to share that vision.

Tourism 2000 is the second in a series of forums created by Simon Fraser University on major themes in the tourism industry. The First Advanced Policy Forum on Tourism in 1987 addressed the theme of Tourism as a Generator for Regional Economic Development. The first forum relied extensively on workshop participation by delegates from defined regions and communities. Tourism 2000, the Second Advanced Policy Forum on Tourism, emphasized formal presentations by experienced and senior practitioners in their field. Five of the twenty-two speakers came from outside Canada, and two more spoke of projects outside our country.

The sequence of presentations at the forum moved from specific sectors within the tourism industry during day one, toward presentations of a more technical or financial nature during day two.

This volume comprises, in written form, the complete transactions of Tourism 2000 as delivered on May 11 and 12, 1989. All of the presentations have been compiled in this volume. One by Mr. John Gow—prepared for the forum but not delivered there—has been added. Discussion which followed each presentation is also incorporated in this volume. The presentations and discussions have been edited solely for the purpose of readability; the contents have not been edited. The opinions expressed are those of the individual speakers.

Opening Remarks

The Honourable Bill Reid
Minister of Tourism and Provincial Secretary
Province of British Columbia
Victoria, B.C.

As British Columbia's Minister of Tourism, it is a pleasure to be here at this Tourism 2000 conference. You have a very impressive line-up of topics, providing opportunities to examine many facets of the tourism industry and consider ways of taking advantage of growth opportunities.

Advance information on this forum referred to the tourism industry in British Columbia and Canada as being at a point of major transition, with tremendous potential for growth from now until the end of the decade. I agree completely with that.

All of us know there is tremendous growth at the international level in the awareness of tourism's potential. Tourism is predicted as a major driving force in the economies of many countries. This has been very evident in British Columbia since Expo 86, when we had record numbers of visitors. There was international acclaim of this province's assets, resulting in a heightened awareness by B.C. residents themselves of our tourist potential.

Therefore, the challenge is to maximize British Columbia's tourism potential by developing the industry in response to ever-increasing market demands.

Let me mention a few of the factors which contribute to the growth of tourism. First, we have advances in transportation and communication, resulting in heightened awareness and easier access. Second, there is an increase in leisure time and discretionary income, especially among the growing numbers of those over 55 years old. And third, we in British Columbia are particularly aware of the shift of economic wealth to the Pacific Rim.

British Columbia's tourism industry is riding the crest of a growth wave. During 1988, our tourism revenue was $3.4 billion, an increase of 13% over the previous year. The largest contribution came from British Columbians themselves, whose spending was about $1.5 billion. Other Canadians spent $702 million, Americans $682 million and international visitors $584 million. U.S. visitors were up 4.1%, and overseas visitors were up 20%.

A 66% annual occupancy rate for B.C. hotels in 1988 was the highest since 1981. Most significantly, the rate was 3.6% more than in 1986. As well, our motel occupancy rate was up 5% and resorts were up 3% over 1987.

Obviously, we are on a roll. We have a lot going for us, including our geographic location and our outstanding natural resources.

However, we must always be aware of our opportunities, some of which I will briefly mention. Our outdoor/wilderness/adventure sector, for example, has tremendous potential. As well, there's the touring sector, our attractive cities, and our competitive trade and convention sector.

Opportunities are there for B.C., but only if we develop a clear and determined vision of the future in which tourism has a major role in our economic development.

During this period of increasing competition, we must develop creative and responsible tourism initiatives which provide experiences that meet, and hopefully exceed, visitor expectations.

Through research, we must be attuned to changing market demands and develop a comprehensive information base on product and market opportunities which will make B.C. a leader in the tourism industry. Based on research, we must ensure that the quality of our products and the service we provide are at the highest level.

What are we facing? Improved communications and transportation mean tourists have more choices and they can afford to be more selective. As well, we know people want packaged vacations and weekend get-aways. They want holidays that feature health and fitness opportunities, wilderness experiences, and so on. Holiday packages for seniors should include more active experiences. We know, too, that people want recreation facilities in hotels and resorts.

Some of these trends mean we might have to integrate our products—combine modern resort properties with recreational opportunities, for example. We will have to look closer at providing four-season products. •

Whistler is a good example of a successful attraction that combines a full range of facilities, including recreational, retail and resort offerings.

I will turn for a minute to a description of the role of government in meeting the challenges. Briefly, government must develop policies and programs which encourage and stimulate private sector-driven economic growth of the tourism industry.

More specifically, government should help identify future opportunities. It has a duty to create a healthy investment climate and, as well, provide, maintain and upgrade the necessary infrastructure. I am thinking of transportation and communication systems, for example, and our plans for the new Vancouver Island highway and expansion of the B.C. Ferries fleet.

As well, there is a need for private sector involvement which has historically been lacking, perhaps because investment decisions have been based on the tourism markets of the early 1980s. However, tourism has changed and we are now at a transition stage that offers exciting opportunities for future growth.

For that reason, we must address the whole issue of tourism investment. How quickly we in B.C. progress depends to a large degree on helping those in the financial community appreciate the opportunities to participate in this new era of tourism development.

That is the value of a conference such as this. It gives us an opportunity to look at both the challenges and opportunities facing tourism. It encourages us to stimulate and support the growth of an industry which is a major contributor to the B.C. economy.

Tourism: New Opportunities for Profit

The Honourable Tom Hockin
Minister of State, Small Business & Tourism
Government of Canada
Ottawa, Ontario

May I begin by expressing my appreciation to Simon Fraser University for organizing this important forum. It is a measure of the university's commitment to community involvement that it would help organize an event such as this for the second most important industry in British Columbia. It is refreshing to see the importance the university places on the future of the industry, not only in British Columbia but in all of Canada.

This forum is particularly important as it seeks to set our sights on the challenges our industry needs to overcome in order to grow in the next decade and beyond. The academic community in Canada can do more to help our tourism indusıry in providing training, research, and strategic thinking, so this expression of interest on the part of Simon Fraser is of particular interest to me.

A few short months ago I was immersed in the issues confronting the Department of Finance. Among my many concerns then, as Minister of State for Finance, were investment, consumer and investor confidence, foreign and domestic markets, economic growth, productivity gains, exchange rates, gross domestic product, and of course, competition and leadership.

Since then, I've changed my portfolio but I still find myself concerned about many of the same issues. I say that in order to set the broader context for my remarks. That is, the health of any industry or sector is absolutely intertwined with the overall health of the general economy. We have to get the economy right before we can go on to all of the other things that are worthwhile. I assure you that is the priority of my government.

We have been striving, since 1984, to get our fiscal house in order so that we might have greater room to manoeuvre as a government. By that means we could diminish government's seemingly insatiable thirst for investment capital and thereby relieve the economy of the burden of high interest rates. Consistent with this effort has been a new conception of the role of government as a facilitator and catalyst rather than as an intervenor and source of funds.

Having said that, there are a number of things that all of us here today who are deeply interested in the future of the tourism industry in this country can do to contribute to its growth. The extent to which we participate in its development, and profit from that participation, depends, in large measure, on our commitment to the industry, whether as policy makers, investors, developers, operators or sellers.

As the federal minister responsible for tourism, I am committed to the development of this industry in ways that best serve the national interest.

I know that in order to grow, and equally as important, to sustain that growth, the tourism industry must strive to be internationally competitive in every sense of the word.

If Herman Kahn's prediction that tourism will be the world's largest industry by the year 2000 proves true, there will be little comfort for Canada unless we are a major beneficiary.

At the federal level, the role we can or should play in the industry has been evolving. When the government took office in 1984 it was not difficult to conclude that earlier policies were no longer appropriate to the times. As a result we have been moving away from the role of a major provider of capital.

Previous programs have done much to improve Canada's tourism attractions. Indeed, we can be proud that we stand in the top ten in the world in terms of international receipts. We can be equally proud of our consistently impressive growth over the past decade, creating jobs in this industry at a faster rate than in any other major sector.

Today's tourists are looking for a much different mix of products than their parents. Their children's demands will be equally different. To prosper in this ever-changing marketplace we have to find innovative ways to develop and finance the products that will keep Canada at the leading edge of this highly competitive industry. With the strong growth that this industry has experienced, it is surely reasonable to expect that private capital pools, of both Canadian and international origin, will finance the development of future tourism projects.

In my view, the leadership to meet the challenges of international tourism competition is not an inherited title. It needs to be earned, every day.

As I said in my speech to the Tourism Industry Association of Canada in February, there are a number of ways we are marshalling Canada's tourism resources to meet our competitors head on—and to beat them.

For my part, I will work with my colleagues in Cabinet to support and encourage tourism growth and development with the same vigour and purpose as we do for other key sectors of our economy.

I am presently assessing our capacity to reinforce the competitiveness of our industry through the provision of high quality tourism market intelligence and research.

This is essential if the industry wishes to ensure that the critical strategies it develops and actions it undertakes in tourism are based on the best available research and intelligence possible.

That research effort includes major studies about the dimensions of the world tourism marketplace; about the dimensions of our own market here in Canada; about the demographics of travel and tourism, trends and developments in tourism at home and abroad; and about what people want to experience in a vacation. Research into our own tourism offerings helps determine whether they can meet these demanding expectations.

We keep a close watch on our competitors in world tourism to see what they are doing, to find out what they know that we may not, to learn from their successes and failures.

This research is intended to provide the kind of information the business community needs to make informed business decisions. Together, we can develop the right strategies and action plans to keep Canada a serious player in the world tourism marketplace.

I believe that the collection and dissemination of research is a vital role. It is a role Canada and its tourism industry have profited from, and it is a role we will continue to build upon.

I would like now to turn to another area where the federal government is working to reinforce the competitiveness of our tourism industry. I speak of the continuing quest for sources of capital to build the industry—to stimulate its long-term growth and development.

The spirit and energy of entrepreneurial activity and investment in Canadian tourism, now more than ever before, need to grow and flourish. I believe this industry has matured to the point where it can compete for capital with other sectors by making a sound business case for its projects. However, this means that the industry will need to explore alternatives, to be creative, to investigate new ways of attracting the capital required to stimulate tourism.

We are all well aware that the tourism industry is composed of small- and medium-sized businesses. In Canada, it is an industry with seasonal demand for much of its product. Moreover, many tourism businesses have had high debt-to-equity ratios and a low rate of return.

Many tourism businesses are located in remote regions. This gives rise to two problems. First, it is harder for them to be confident of their markets and more difficult to assess those markets accurately. Second, an investor is less likely to be aware of, or attracted to, projects that are not readily accessible.

There is also a significant problem of collateral, largely due to the fact that many buildings built for the tourism industry, such as motels, are single-purpose structures. That makes it more difficult for lending institutions to realize on security than is the case with multi-purpose structures such as factories or shopping centres.

These then are some of the reasons that tourism businesses have encountered difficulties selling themselves to financial institutions as good business risks.

No one likes to be reminded of these problems but I believe our industry must face these realities and overcome these obstacles if we are to retain our competitive edge.

With imagination, intelligence, and entrepreneurial spirit, we can deal with these challenges.

I know that some Canadian banks are taking a deep interest in the question of financing tourism operations. They are developing several interesting initiatives to help small- and medium-sized tourism operators do their risk analysis, and prepare better business plans. Equally important, they are working to help their staffs better understand the special characteristics of the industry. That is a highly commendable effort on their part.

However, perhaps we should ask ourselves whether debt is the best way to finance tourism ventures. Are there not sources of equity that haven't yet been explored by the tourism industry? Perhaps local tourism businesses could do more thorough research in their own financial markets. Within many communities there are often capital pools looking for solid investments. Professionals and other small business operators are beginning to recognize the potential of tourism investment.

New ways are emerging of matching investment capital to investment opportunities. For example, the Canadian Chamber of Commerce's successful Canadian Opportunities Investment Network (COIN) recently went national. At first glance this appears to be an excellent opportunity that the tourism industry should explore.

Asset-backed securities, as well, are a way of financing that deserves a very serious look. The Federal Business Development Bank has been examining the application of asset-backed securities to business loans. Since many tourism products often have extensive real-estate assets associated with them, such securities might well offer an innovative approach to financing.

Quasi-equity instruments are becoming more common among venture capitalists and certain lenders. In fact, the distinction between debt and equity has become blurred through the use of subordinated debt instruments and mezzanine financing. When combined with so-called equity kickers, capital on terms and conditions acceptable to both entrepreneur and capital provider could be more accessible.

I believe that forums such as this are particularly valuable. They make financial markets more aware of the opportunities offered by the industry with ideas about innovative approaches to financing that can benefit both borrower and lender alike.

I have no doubt that the ability of the tourism industry to conduct market research in a vigorous and thorough manner, to evaluate risk and rates of return, to perform analyses of competition—in other words, to present well-planned projects to the financial community—will do much to attract private sector capital.

While the private sector will have a growing role to play in financing tourism, the federal government will continue to play an important role as well.

As most of you are aware, federal financing for small- and medium-sized businesses is delivered mainly through the Federal Business Development Bank and the Small Business Loans Act (SBLA) program.

Of course, neither of these programs is specifically targeted to financing tourism. It is worth noting, though, that almost one-quarter of the loans made by the bank in the 1987-88 fiscal year went to tourism businesses, and I think it is reasonable to assume that the percentage under the SBLA would be similar to that of the bank.

We are looking at several possible options to ensure that the SBLA continues to meet the changing needs of small businesses in general. While I can not make specific promises about the future of the act, I can assure you that the needs of the tourism industry will be seriously considered in this review process.

We are also constantly looking at ways of improving the Federal Business Development Bank's ability to serve small- and medium-sized businesses, including those of the tourism industry.

The federal government can and will help business development by striving to encourage the maximum possible private-sector participation. In the case of tourism, I believe that this development must be linked to community involvement, both in entrepreneurial spirit and in financial backing. By far the most compelling case for federal assistance can be made by maximizing private-sector resources, especially at the community level.

I sincerely believe that the future for Canadian tourism is a bright one. I see great opportunities for Canada, and for Canadians who are willing to take risks.

Canada has much to offer as a tourism destination, both to international visitors and our own citizens.

We have to take a hard look at the weaknesses in our tourism offerings—whether they be related to products, service, cost, seasonality or other factors. Then we must turn them to our advantage.

We're making headway.

Frankly, we have so much going for us in tourism, I believe that our potential hasn't even begun to be tapped.

In closing I would like to celebrate the magnificent achievements of the tourism industry. Those achievements have positioned us well. Success in the future will depend on innovation, determination and co-operation—innovation to adapt to changing market opportunities, to develop new offerings, new financing, new training; determination to work, to overcome the existing obstacles to growth; co-operation within the industry and with government to ensure we are making the most effective possible use of our resources.

Government and industry will have a constantly changing role as Canada learns to exploit its tourism resources better and better. The changing role of government reflects not only the maturity of the industry but also our continuing commitment to involvement in the industry in the national interest.

You and I know that if Herman Kahn's prediction proves true, Canada can be a major beneficiary of that industry. I am convinced that by working together we can be the envy of our competitors.

Questions and Answers:

Question:

One of the things that can be done to address our problem—besides financing, as you have mentioned—is product improvement. What is it that you can do for more product improvement so that we can compete with other markets and other countries?

Mr. Hockin:

I'll ask Bill Reid to join me in this answer, because, first of all, the federal government must have the best possible data base, research base, and intelligence system so that the product improvement makes sense. In other words, with enough research we could help you to make intelligent decisions. You could consult the federal government about how you would like to improve your product, and we would be able to assess for you whether your plan is worth it or not. Second, we could help to finance a project through the Federal Business Development Bank (FBDB) and the Small Business Loans Act (SBLA). Now in terms of actually giving you money, this responsibility is being transferred gradually to the provincial government, so that they will assume that role.

Mr. Reid:

In British Columbia that won't be a problem. As you know, we are ready to accept our own challenges; we are, after all, leading Canada with tourism and we will continue to do so.

In answer to your question, we are going to be providing the federal minister with some information about the most dynamic research division in Canada. The rest of the things will fall in place. You cannot attract visitors if you do not have the hospitality component which makes it all work. You can paint it in any colour you want, but first of all the people have to have a reason to come back.

Question:

The Disney Corporation is by far the world's most well-recognized and most successful theme park operator. Has anything been done on a federal or a provincial level to entice these people to Canada?

Mr. Hockin:

We know that we have been looked at by large operators, including the Disney people. Whether they're on the verge of making a decision or not, I don't know. But can I say this: I don't think the federal government should entice them with hundreds of millions of dollars. They'll come because it makes market sense or not. And anything we would contribute would be simply putting money where it's not really necessary. What we have to do is give them the analysis that makes it compelling.

Ski Industry Perspective, British Columbia: Winter, 1988–89

John Gow
Principal
John Gow Consultants Limited
Victoria, B.C.

The 1988–89 ski season has been the most successful on record for the British Columbia ski industry. Virtually every ski facility in the province has enjoyed substantial increases in volume, with resulting operational success. Several factors combined to provide these favourable results, including snow and weather conditions, the economy, and a maturing provincial resort product.

This year Whistler, combining both Whistler Mountain and Blackcomb, will host a record 1.2 million skier visits, an overall increase of 9%. The balance of the province's attendance should be up in the range of 7% to 8%.

Real-estate activity, which has been strong at Whistler for the past two years, is now flowing out to other areas of British Columbia. Major new projects are underway in the Okanagan and others are likely to be announced in the near future. A stronger resale market exists at most resorts as well.

Interest rates have not, to this date, substantially dampened recreational real-estate activity. However, if they rise much beyond these levels, declining sales can be expected.

A Maturing Industry

The development and operation of ski resorts in British Columbia has reached a level of substantial maturity. The lessons of the early 1980s have been well learned, and the industry is proceeding on a much more stable footing.

During the 1970s there was very little differentiation between most of the province's ski areas. They offered similar products in terms of lift equipment, food services, grooming and operational standards, and accommodation when available. Most pursued the same markets with equal vigor, with varying degrees of success.

Ill-defined markets, products and goals resulted in a great deal of inappropriate development activity at many resorts. Short-term real-estate profits appeared more attractive than long-term resort quality, and inexperienced operators were caught up in a wave of highly levered, unrealistic mountain and real-estate development.

The recession of 1982–84 caught the British Columbia ski industry flat-footed. Unable to cope with a combination of high interest rates, the collapse of recreational real estate, and sagging attendance, a number of resorts and related projects were forced into receivership. The survivors were forced to reassess their situation and plans.

A sharp redefinition of the province's resort hierarchy began in the early 1980s, with the emergence of Whistler as an international destination. The strength of development at Whistler, including Blackcomb and the village facilities, provided unprecedented competition for the other resorts seeking skiers from the Lower Mainland. The "export surplus" of Vancouver-area skiers dried up, and many resorts witnessed declining attendance as a result.

Simultaneously, consumer spending declined, further compounding the industry's problems. As many resorts were unable to meet their obligations, financial institutions lost faith in the ski industry. Several resorts were sold in receivership as a result of excess debt and negative cash flows.

The period of 1984 to 1988 has seen the emergence of a reorganized ski industry, better financed, better operated, and equipped with a clearer sense of market reality. The ski industry has, by and large, re-established its credibility with the commercial banking sector. At the same time, it has become far less dependent on government intervention in product development. Hopefully, both of these trends will continue.

Through an evolution of equipment, size, facilities and access, the province's resorts have become much better defined in their markets and roles. Consider that there are three distinct types of ski facilities: international destination, regional destination, and local recreation facilities.

International Destination

- Sufficient size and scope in both mountain and ancillary facilities to attract world interest.
- Within two- to three-hour ground transfer time from an international airport which offers competitive service from target markets.
- Substantial local and regional markets providing critical base of attendance.

Regional Destination

- Mountain and base facilities adequate for complete ski vacations.
- Within one to one-and-a-half hours of a regional airport offering competitive service from target markets.
- Good highway access to sufficient markets within a convenient one-day drive.
- Substantial local markets to provide a base of customer support.

Local Recreation Facility

- Mountain and base facilities appeal primarily to day trip experience.
- Location, mountain product, or facilities may detract from appeal to vacationing skiers.
- In many cases, insufficient local markets exist to develop the base of attendance necessary to support a facility that will attract outside visitors.

The common thread that runs through all resort types is the need for a local market of sufficient strength to create a facility that is of interest to more distant markets. In no cases in western Canada, and very few in the United States, do major resorts operate successfully without this local support.

Express Lifts

Challenge for the 1990s

Since the installation of North America's first detachable lift at Breckenridge, Colorado less than ten years ago, improved technology and expanded applications have created a revolution in ski-lift manufacturing and installation.

In contrast to fixed-grip lifts, which remain attached to the cable for loading and unloading, express chairlift grips detach at the top and bottom stations allowing loading and unloading at very low chair speeds. The fixed-grip line-speeds of 400 to 500 feet per minute compare to express-lift line-speeds of approximately 1,000 feet per minute. Consequently, express chairlifts attain high hourly capacities and substantially reduce ride times.

For the consumer this means considerably more skiing time, with the ease of loading and unloading at low speeds, "user friendly," particularly by novice skiers and children. Actual capacity achieved per hour, as a percentage of theoretical capacity, is higher on express lifts due to the ease of loading.

In comparison to fixed-grip chairlifts, express lifts are highly complex, both mechanically and electronically. This results in substantially higher initial capital cost, and potentially higher long-term maintenance costs. They certainly require far more sophisticated operational and maintenance departments.

Industry opinion on express lifts is mixed. High capital cost, potentially high long-term maintenance costs, existing adequate lifts and uphill capacities, or local market conditions have created disparate views on the opportunities. However, no one denies the inevitability of the change to express lifts or the fact that the skiing public love them.

The historical evolution from rope tows to T-bars, to double chairlifts, to triple chairlifts, to quad chairlifts, now continues to express quad chairlifts.

One of the most striking perceptual differences between resorts is in the State of Colorado. Vail has installed six detachable quad lifts in the past three years. Their philosophy is that their customers overwhelmingly prefer express lifts, and that Vail will provide the best possible service.

In contrast, Aspen Skiing Company, operators of Aspen, Snowmass and Buttermilk ski areas, have more recently installed four detachable quads. Executives interviewed feel that they are in an "arms race" where the only winner is the consumer, and that they are being forced into an overly expensive capital program. They are obligated, in a sense, to respond to Vail's initiatives, and are constantly playing "catch up."

The benefits of positive public perception appear to be greatest to those resorts that lead in initiative, as opposed to those which are reactive. In the end though, the resorts with the best products, facilities and access will maintain long-term market share.

Goods and Services Tax

On January 1, 1991, the federal government will buy a goods and services tax on virtually all goods and services in Canada. The range of exemptions will be narrow, likely restricted to basic food, medical services and education.

The stated objective of the Minister of Finance is to overhaul the existing manufacturer's sales tax, which has substantial inequities. The new Goods and Services Tax will remedy many, but create new ones for tourism.

Concern of the ski industry is based on two aspects:

- Tourism is the one sector of the economy that has no protection from Canadians obtaining the equivalent product outside the country, with no duties, taxes or restrictions.

- While the federal government is removing taxes from manufactured export products, it will levy this tax on all aspects of inbound tourism in Canada.

If the Canadian tourism product is not perceived to be good value, to both domestic and foreign markets, all aspects of the industry will suffer.

In the past, other countries that have instituted such a tax while neighbouring jurisdictions did not. New Zealand and Austria, for example, found substantial negative impact on their tourism industries.

Because the tourism industry is highly capitalized, with its physical plant well-established, it is very vulnerable. Tax-paid inputs to its product are going to be low, thus the 9% levy will be felt almost in its entirety.

Expect a slowing in capital spending until it is clear how the manufacturer's sales tax paid on capital items underway before January 1, 1991, will be treated and until the industry assesses the damage to our competitiveness.

Representations should be forcefully made by all sectors of tourism to the Minister of Finance with respect to the potential for real damage. While exemptions are highly unlikely, a strong case can be made for the federal government to study other offsets.

New Market Development

For the foreseeable future, it can be expected that the focus of the British Columbia ski industry will be on strengthening existing markets. Substantial market expansion has been realized in the past decade, and a period of consolidation would be reasonable.

There will be a strong trend to continued product development, both at Whistler and the province's regional destinations. The province's ability to compete in both Canadian and American markets should be enhanced over the medium term.

An improved highway network, coupled with competitive regional air service, is of major benefit to regional destinations. These improvements will continue with the opening of the Coquihalla-Peachland connector, the upgrading of the Island Highway, and other projects now underway.

British Columbia's competitive position in eastern Canada is at risk, with the concentration of airline capacity, and that industry's need to improve yields. Future increases in both capital and fuel costs to airlines are areas of potential negative impact.

Foreign markets that could offer interesting potential to British Columbia tourism will likely include Mexico, South America, and Korea. Certainly Korea has the potential of becoming another Japan in world tourism.

Other Factors

Exchange Rate

Our competitiveness in both domestic and foreign markets is obviously going to depend on the relative value of the Canadian dollar. Its existing range of 80 to 85 cents U.S. will help to offset the impact of the goods and services tax.

Labour Markets

British Columbia ski resorts have a substantial advantage over many competitors, both domestic and foreign, in the availability of a highly motivated and willing work force. This results in a positive consumer experience, positively afffecting our ability to attract repeat visitation.

The commitment of the Government of British Columbia, Ministry of Tourism, to this aspect of the industry is shown through its formation and support of the Pacific Rim Institute of Tourism. The institute's initiatives in supervisor training and development of high school students' awareness of opportunities, and its newly opened resource centre all will have a positive impact. At this time, the Canada West Ski Areas Association is entering into a comprehensive training agreement with the Institute.

Long-Range Outlooks

In spite of the concerns outlined regarding the goods and services tax, the British Columbia ski industry has a strong future. Our product has captured attention worldwide, and will continue to do so. Appropriate product development across the province will strengthen our appeal locally, regionally, and internationally.

Real-estate activity at the province's resorts should continue to provide development of base facilities, and capital for mountain expansion.

The winners in the ski resort industry will be those companies that clearly target their markets, develop the appropriate facilities and services for them, and meet rising consumer expectations for service excellence.

Destination Ski Resorts: Whistler and Beyond

Richard S. Bell
Vice President
Intrawest Properties Limited
Vancouver, B.C.

What I was asked to talk about today were those factors that contributed to Whistler's success and how this success would impact on the future of ski resort development in the Pacific Northwest. I also think it's appropriate to talk about the future prospects for the ski industry, both locally and internationally. I'll endeavour to deal firstly with the factors associated with Whistler's success and then spend the majority of the time dealing with the ski industry as it is today and the prospects for the future.

Intrawest's involvement in the Whistler area began with its purchase of Blackcomb Skiing Enterprises in 1986. However, Blackcomb began operation in 1980 and really formed the second leg for the ultimate success of the Whistler resort area. In the early 1980s, both Blackcomb and Whistler were frequented mostly by locals, and the conventional wisdom of the day had the Whistler resort remaining as a weekend ski area devoted primarily to Vancouver skiers. By local standards, Whistler, Blackcomb and the Whistler Resort were successful operations. Blackcomb skier visits in 1980 were zero and by 1986 they had increased to over 350,000 visits without negatively impacting Whistler Mountain at all. Hotel occupancies in the Whistler area were running in the order of 65% to 70% on a year-round basis, and it appeared by 1986 that the Whistler Valley was well on its way to success.

At the outset, the most critical issue associated with Whistler's success was the extensive level of government involvement. The Province of British Columbia had taken the initiative at the front end to commit a substantial investment in planning, transportation infrastructure and the necessary seed capital for the development of Whistler Village.

The Whistler Valley also offered the opportunities for a tremendous variety of four-season activity, the lifeblood of a successful resort. In the wintertime, skiers had the opportunity to ski two different mountains with a vast amount of alpine terrain. In the summer there was golfing, swimming, windsurfing, hiking and, during the shoulder periods, there was a relatively healthy conference business focussed around the government-funded Conference Centre.

And from a ski operator's perspective, they had everything they could possibly ask for. They had proximity to Vancouver and a large metropolitan market with an installed base of skiers, skiers who learned on the local mountains and graduated to Whistler and Blackcomb when their skiing expertise and their household budgets allowed.

By 1986, the Whistler area had established itself as a viable resort with a strong local, and growing national, base of support. However, we saw an opportunity to take the Whistler area, and Blackcomb in particular, onto the world stage. We had a vision of a mountain with high-speed lifts, runs for every type of skier, a fully integrated resort community located right on the side of the ski hill and a year-round opportunity for recreational activities.

The economics of the day were right too. Lift tickets across North America had increased above the $30 U.S. mark—while Blackcomb was selling its lift tickets for less than $20 U.S. Blackcomb also had a huge undeveloped real-estate potential; more than 254 acres of virgin forest on gently rolling lands were located right at the base of the ski hill. We saw an opportunity to create a world class, year-round resort all within the Blackcomb skiing complex.

Our vision saw Blackcomb capitalizing on the attention Expo had generated. In March of 1987, we began the largest mountain expansion program ever attempted in one year in North America. On December 5, 1987, the expansion was completed on time and on budget and, within the space of nine months Blackcomb had doubled its uphill capacity, doubled its skiable terrain, and tripled its food and beverage operation.

Blackcomb had become a year-round mountain with easy access to what is now referred to as the Seventh Heaven ski area. With the introduction of the Seventhth Heaven express lift, Blackcomb became the mountain with the highest vertical drop in North America. With the installation of the new T-bar on the Horstman Glacier, Blackcomb became the first ski mountain in Canada to offer year-round skiing and one of only three mountains in North America to offer summer skiing. The ride from the top is an incredible eight-mile cruise down to the Village.

Before we began the capital program at Blackcomb, however, we visited all the major resorts in North America and hired the best mountain planners available. We began to understand the impact of these new high-speed lifts. When lift time is cut in half, not everybody wants to double their skiing mileage in the course of a day. We created a new full-service sit-down restaurant at the top of Blackcomb to cater to those who wanted to take a more leisurely approach to the day. We created a ski esprit program to take people all around the mountain and show them the vast opportunities for skiing in the alpine area.

More recently, a new Ralph Lauren store has opened in the Whistler Village and just last week, Gucci agreed to open a full services outlet on Blackcomb. All of this was totally consistent with our vision of a world class resort. More recently, the resort has been recognized by Japan's number one ski magazine as North America's number one ski resort and the number two ski resort in the world, second only to Zermatt in Switzerland. The Whistler resort has now arrived.

To summarize the factors associated with Whistler's success, the resort had a great head start by virtue of its tremendous natural amenities together with its proximity to Vancouver. When combined with a supportive provincial government that was prepared to fund the necessary upfront expenditures, the Whistler area had everything it needed to become a success.

The recent elevation to world status, on the other hand, has been the result of a combination of factors:

- Private sector investment—which at Blackcomb alone has exceeded $200 million (over the past two years).
- A systematic increase in the level of public accommodation in the resort.
- Low cost air travel.
- A significant decline in the value of the Canadian dollar relative to foreign currencies.
- Enhanced awareness of Vancouver and British Columbia as desirable tourist venues.

The real story for the industry today is to build on the successes of the past in light of a number of factors which are having, and will continue to have, a dramatic impact on the viability of the entire industry. The growth in the Blackcomb/Whistler ski complex in terms of skier visits has indeed been phenomenal. Today, we are, together with Whistler Mountain, North America's third-largest ski resort in terms of skier visits, and this year our skier visits will exceed 1.2 million. This is a 50% increase over the skier visits to the Whistler Valley in 1986–87 which then totalled something slightly in excess of 800,000 visits. However, this compares with a 6.5% growth rate of skier visits in British Columbia. In the U.S., skiier visits have remained relatively static since 1980, at around 50 million visits.

Across the industry, experts are recognizing the slowdown in growth within the business. The challenge to ski area operators, and for that matter, destination resort operators, really comes down to having to deal with a growing market headed toward maturity. In 1970, for example, there were 1,200 ski areas in the United States. In 1988 that number had decreased by almost 50%. Today, there are only 622 ski areas operating in the U.S.

The reasons are relatively simple: skier visits have been rather stagnant at between 50 million and 54 million skiers per year for the past five years in the United States.

Meanwhile, the costs of operating a ski resort are way up. Insurance premiums are up, staffing costs are up and the cost of money is up. Not only that, but the ski industry "arms race" is now in full form. The capital investment required to ensure both a quality ski product, as well as sufficient snow to service the skiers, has dramatically increased the cost of entry into the business. A fixed-grip triple chairlift used to cost just under $1 million. Now, the new high technology detachable quadruple chairs cost in excess of $3.5 million to construct. Snow making, which ten years ago was unheard of in the western North American ski quadrant, is now a fact of life at even North America's largest ski areas. The capital cost of installing snow-making equipment for Blackcomb is now in excess of $2 million.

As costs go up and growth in demand begins to slow down, the challenges to profitable operation continue to mount.

At the same time that the baby boom has peaked, competition has exploded. In 1980, vacation cruises accounted for a relatively small percentage of the vacation market at slightly in excess of 1 million passengers. In 1988, more than 3.5 million people took cruise vacations and spent more than $5 billion. Vacations to the world's sunspots have also increased. Club Med memberships worldwide have grown by 129% since 1980. On top of that, trips to the Orient, adventure vacations and even new technology as far as home entertainment is concerned, have increased the competition for leisure time.

As the baby boomers continue to become more sophisticated in their lifestyles, they will become more discriminating in how they spend their free time and their disposable income. All of these things spell a change in the ski business from a gentlemen's game to a market-share game. It is becoming a game where planning and research and professional management are the keys to success. We've seen it happen at Blackcomb and we see it happening across North America. As the number of new skiers coming into the market slows down, competition to attract those skiers who are already in the market and to keep them in the market will intensify.

We are already seeing changes underway within the ski industry designed to improve competitiveness. They are as follows:

- ***Equipment technology.*** We are seeing a dramatic improvement in ski equipment and apparel, making skiing safer, easier and more comfortable.
- ***Improved amenities.*** Many ski areas are adding non-skiing resort amenities. Ski resorts are building health clubs at the base of their mountains, adding daycare and babysitting facilities, improving accessibility to the slopes, trying to cut down on lift lines, and upgrading the quality of restaurants.
- ***Better staffing.*** The successful ski resorts are imbuing their employees with an understanding of the importance of customer satisfaction. We at Blackcomb introduced a level of cordiality, a courtesy level, that hadn't

existed before. In a fine example of clever marketing and staff training, Vail Associates prepared a videotape intended for their employees showing a family of four coming to Vail for a vacation. They showed the family lugging baggage to the airport, flying to Denver, losing their baggage, then hunting for the shuttle that would take them ninety minutes to Vail. They were trying to show their employees that by the time people get to Vail, they've been hassled to death. What they want when they arrive is a big smile and welcome. These customer service attitudes will have to prevail for those resort operators who choose to be successful in the business.

- ***Better marketing.*** Many ski resorts are now rethinking their marketing strategies. Vail Associates, which operate both Vail as well as Beaver Creek in Colorado, are refocussing their marketing efforts. Vail's new television ads feature 40-, 50-, and 60-year-old models designed with a view to keep their existing skier base longer.

- ***Strategic alliances.*** As the industry continues to experience a period of consolidation, it seems as though there are some real opportunities. If properties began to link up with each other, they might be able to combine brand-names and market aggressively, with media spending levels that have not been affordable due to their individual sizes. There are some ski resorts in the U.S. that have established strategic alliances between eastern-based weekend ski areas and Colorado based destination ski areas. The eastern ski areas form the "farm team" for the Colorado ski areas which depend on a continuing flow of destination travellers to meet their growth targets.

- ***Intensive capital investment.*** Investment in both lift expenditures, as well as equipment advances and snow-making installations, will continue to improve the ski product. At Blackcomb we installed high-speed lifts and bubble-covered quadruple chairs to maximize the amount of ski time and minimize the amount of discomfort. In addition, we invested a substantial amount of snow-making equipment in order to ensure that the ski product, even during the shoulder periods of the season, was superior to any product available.

- ***Differentiation.*** There may be some opportunities for the smaller ski resorts to differentiate their product to appeal to a specific target segment. Some ski hills in the U.S., for example, are targeting themselves specifically at the health conscious or the professional groups, such as dentists, doctors, lawyers or the convention skier, all with the intention of making themselves different from the other ski areas that they compete with.

The irony and, in fact, the difficulty in the ski area business in effecting all of these suggested changes is that in many ways it was, and still is, a gentleman's game. Most of the ski area operators of today have been successful with one set of rules. The industry's been growing, everybody's made money, why change? Ski area management is partly a business and partly religion. It seems very difficult for many managers to think in terms of cost containment when product quality has been the focus since the sport began. Probably one of the most significant barriers to change is that many ski areas do not control the entire product. Many independent businessmen and women are offering lodging, food services, and travel services, all of which make a successful vacation. As destination ski areas continue to depend on the growth in the destination market, they continue to become more and more dependent on these providers of services.

All of these challenges are facing ski areas, large and small, today. Without concerted effort on at least some of these fronts, the ski area operators of tomorrow will find themselves either out of business or absorbed by the more aggressive, attentive, competitive ski area management teams. This business is a tremendously exciting business and a business undergoing a tremendous amount of change. We at Intrawest are very excited about being part of it and we hope that we've added something to the tourism industry here in British Columbia and that we continue to add something by our active participation.

Questions and Answers

Question:

Approximately how much would it cost to have night skiing, per average run?

Mr. Bell:

We haven't really thought about night skiing. We operate Blackcomb Mountain, and I think we've had some analysis done by our management people who determined that night skiing doesn't really make a lot of sense, at least at Blackcomb. It certainly does make sense in some of the ski areas close to major metropolitan markets. There is a tremendous example at Mont St. Saveur just north of Montreal. They do fully 40% of their skier visits at night and it's an incredible story.

Question:

This year marked the opening of the new Whistler tram or the Whistler gondola lift. Have there been any studies done that indicate which lift a skier finds most desirable—either the quad with the bubble or the gondola lift?

Mr. Bell:

Well, I guess the best study is market share. Last year we had about 53% market share in the Whistler Valley itself and this year we will only slightly exceed 50%. So I guess that tells you that there are some people who prefer the gondola product. I think one could make an argument both ways.

We decided to go with quadruple chairs as opposed to the gondola because we did some surveys before we put our lift in, and our customers were telling us that they didn't want to take their skis on and off, that they wanted to stay on their skis all day; so the quadruple chairs offered them that advantage. They wanted protection from the weather, so we installed the protective bubble on the base lift; but we didn't do it above because, of course, then you're in the snow line.

There are pluses and minuses for both. I think Whistler had its reasons for putting in the gondola. It's really a tremendous lift; it works beautifully. And since 3% of the market shifted, it must be an attractive lift for some people.

Question:

Do you see the family market diverting to some of the smaller hills, or do you think that you will continue to see the bonanza that you have seen in Whistler?

Mr. Bell:

Your question is probably the key question that we deal with every day. And the question really is, how price sensitive are people to skiing product today?

As I indicated earlier, skiing lift tickets went from less than $20 U.S. to the current price of $30 U.S. in the span of a couple or three years. People are sensitive, there's no question about it. We think there's probably a price barrier in the $35 Cdn. mark. As I mentioned to you though, the costs of running an operation like that are phenomenal and it's cost pressure that does it to us. It's not really a gouging attitude at all, it's just cost pressure.

I think that places like Apex, Silver Star, Big White, Grouse Mountain, and Seymour will have a place in their own particular market, if they can focus their marketing to take advantage of their specific edge. For example, Grouse and Seymour and Cypress really do have the edge as far as night skiing is concerned. And I think if they promote it aggressively, then they certainly would have a competitive advantage over Whistler and Blackcomb.

The issue of lift ticket prices alone isn't that significant in light of the total vacation budget. Today the cost of lift tickets for a family is probably $100, which is a lot of money; but when you consider the fact that they paid $5,000 to travel there and they're paying $200 or $300 or $400 a night for accommodation, the cost of lift tickets is not that significant a part of their overall vacation budget.

We're seeing some sensitivity. We're seeing people more inclined to want to pick their days. If it's a rainy day, for example, five years ago we would have seen the avid skiers out and up the hill. Today, they're less inclined to be out—they'll wait for the sun. That may be a function again of our skier base getting older, or it may be a function of them being more price sensitive.

Question:

Are you trying to attract a larger international interest as opposed to local?

Mr. Bell:

Our objective is not to get rid of the local market because they're more price sensitive, the issue is where the growth is.

The Hotel Sector: Thrive or Survive

R. F. (Rob) O'Neill
President
Coast Hotels Limited
Vancouver, B.C.

It's a pleasure to be here at Simon Fraser University's new Harbour Centre facility for the Tourism 2000 conference. This is a significant gathering and it's safe to say that it signals a positive understanding of the importance of British Columbia's tourism industry. We need more conferences like this, where we can share ideas about what is surely one of the province's most important industries What's especially satisfying to me about today's meeting is the fact it brings together a wide range of professionals, business people, government managers, and, oh yes, politicians! We must continue to communicate with each other in order to better understand the value of tourism and to maximize our opportunities in the industry.

Now, for those of you who have read this month's *Equity Magazine* , you can rest easy. I am not going to attempt to sing "The House of the Rising Sun." Yes, it's been quite a time at Coast Hotels over the past few months, and we are looking forward to continued growth in the coming years. A recently approved capital plan will see the doubling of our company in the next short while, with major announcements for Victoria and Calgary upcoming this month. Indeed, if we are going to be singing a tune, the beat will be the beat of expansion, and the harmony—in Coast's case—will be Japanese investment and British Columbia based management.

And that brings us neatly into the theme for my speech: the importance of investment to the hospitality industry in British Columbia. But to better understand where we are now—and where we must head in the future—let's take a step back in time. First, back to those not-too-pleasant days of the early 1980s when you remember, no doubt, the recession. As with most others, the province's hospitality industry suffered. We suffered what I have been calling a crisis of capital. And hotels—particularly those outside the B.C. golden triangle of Vancouver-Victoria-Whistler—have had a difficult time recovering.

Let me explain. When the recession hit, hotels in general, and ours in particular, lost one third—that's 33%—of their business almost overnight. Now, if these hotels had been properly financed, that may not have been too difficult to ride out, but the vast majority of these businesses were labouring under large mortgages. Many of the hotels were bought during the boom times of the late seventies and early eighties, and were mortgaged to the hilt. (Coast Hotels, by the way, was no exception to this, and it was only through our access to another supply of cash that we were able to prosper in those difficult times.)

With the sudden drop in business, money became extremely tight for most hotels. Funds that would normally have gone toward the constant refurbishing and upgrading that is necessary in our line of business had to be redirected toward supporting the debt load. For many hotels, the loss of business put them out of business. Bankruptcies were common. For a few years, it seemed the only market in B.C. hotels was receivership sales. Banks were extremely reluctant lenders, and usually the only time they wanted to talk to you about hotels was when they wanted to sell you one of theirs.

That was the bad news of the past for most parts of B.C. The story today is different, of course. The economy has improved. Traffic levels to hotels in the province have returned to their pre-recession levels, and the all-important (inflation-adjusted) room rates are closing in on the rates enjoyed in the early part of the decade. Despite this progress, the industry's problems are a long way from solved. The battles fought during the recession have taken their toll.

Money that should have gone toward improvements, didn't; many hotels are still under-capitalized. The recession left us in a rather deep hole, and there's still a lot more climbing that needs to be done to get out. And yes, I don't mind saying that we're looking for the odd ladder from government to assist us in that climb as well. But more on that later.

I alluded earlier to the fact the economic story of the past decade has not necessarily been told in exactly the same way in all parts of the province. Our golden triangle area of Vancouver-Victoria-Whistler has had different influences working on it, and the current state of the industry in these communities is, therefore, markedly different than in the other parts of B.C. It is worth pointing out here, that in a very significant way, the changes we have seen in these three areas over the past few years mark the way of the future for the entire province's hotel industry

It started with Expo, and even before then, with the anticipation of Expo. The provincial government of the day was right on target with its worldwide promotion of Expo. Suddenly, the world knew about British Columbia; not only the travellers and tourists, but the investors as well. Suddenly, we were a destination, not just of visitors from neighbouring states and provinces, but of tourists from anywhere in the world. Expo opened up British Columbia—Vancouver, Victoria, and Whistler felt this first, and are still feeling it. There have been momentous changes there in the past two years, not only in the hospitality industry, but in all businesses. And more than anything else, Expo, and the philosophy behind it, should receive the credit for this.

It seems that B.C. began looking outward at just the right time to take advantage of two rather significant economic events—the flow of capital out of Hong Kong and Japan's booming economy. Much has been said of that country's economic miracle, of course, but some of the statistics bear repeating. Japan has a trade surplus of more than $ 80 billion U.S. Seven of the world's ten largest banks are Japanese. The four largest securities firms in the world are Japanese. The yen is the world's strongest currency, with prime Tokyo land selling for close to $7 billion (yes, billion) an acre. With Japanese prime rate at 5.5%, Japanese investors started looking overseas for bargains and they found them in many parts of the recession-weakened world—most notably (for our purposes) in British Columbia.

The overseas investors have arrived. The clear evidence in our industry is, of course, the purchases of hotel properties at prices we would have though, impossible just two years ago. Those prices are good not only for the overall health of the economy, but for us here in particular. In effect, they jump start the entire industry by forcing an upgrading of standards within the purchased hotel—to justify the purchase price—and by forcing competing hotels to upgrade in order to stay competitive. Another aspect of the purchases that's good for B.C. is that they are either all-cash transactions, or are financed in a way that can withstand a downturn in the economy. Clearly, we are less likely to experience the blues of the early 1980s.

When I hear about people complaining about foreign investment, I point out to them that as far as I am concerned, we have replaced unenthusiastic "foreign bankers" from Toronto who wanted to limit expenses, with vibrant dynamic investors who want to grow revenues explosively.

But are we making the most of this new wave of investment? In a word, no. Certainly, the golden triangle area is on an upswing because of the new money, but there continue to be problems acutely felt in many other regions of the province. While some may say that the new investment alone will eventually pull those areas out of the doldrums, I would argue that there is much more that can be done within B.C. and Canada to take advantage of, and entice, the new investment and to assist our industry in playing the important role that it should. To put it bluntly, we need a ladder from government to help us climb to the top. We don't need someone rolling boulders into our path.

Let's start with the latest threat, the federal government's value-added tax. While I agree that deficit reduction is a vital goal, it seems retrogressive to attach the tax to as many services as the government is planning. To the hospitality industry, the tax might serve to wipe out many of the gains we are now making—the travel value which Canada offers is price sensitive. While we are talking about taxes, many in the industry have continuing concern about the provincial government's 8% hotel tax. While many would prefer it didn't exist at all, we have come to accept it. But what we do not accept is the fact that the revenue from this tax goes into the government's general revenue accounts. We feel that a significant portion should be directly earmarked for expenditure on the industry itself.

This brings us to another point, the seeming lack of commitment by both senior levels of government to the tourism industry. Compared to the budgets for other industries of like stature—such as forests, mining, or oil and gas—the budget for tourism is absurdly low. Simply stated, the federal government appears to be nothing more than an "ad agency." Why isn't the government recognizing the importance of tourism and getting more involved with the industry in specific ways? There is too much ad hoc-ery going on, and not enough real planning. Just look at training and education in the tourism field. It has been an unmitigated embarrassment and disaster. The BCIT program, in which I graduated in hotel management, has been whittled away and demoralized, and now it is being transferred to the Vancouver Vocational Institute—to date with no input from the industry. We don't need or deserve this sort of treatment. While I am encouraged by Malcolm Ashford's comments, the industry needs a full-fledged, professional advanced training program, on a par with Guelph's in Ontario, or Cornell's in New York State. Our industry may just be the most important this province has in the twenty-first century, but government certainly is not preparing for it.

The provincial government points proudly to the new convention facilities in B.C., and rightly so. But I think we have a long way to go before we can say we are maximizing the use of those facilities. There has not been an integrated policy, bringing government and industry together to plan this vital area. How do I know? First hand experience. Coast Hotels certainly has to be considered one of the leading hotel chains in the province. But we have never been approached by anyone in government about devising or co-operating on strategies to increase trade and convention business. That sort of attitude must change!

I could go on about the high level of property taxes. Believe it or not, Nanaimo has higher taxes than New York per dollar of assessed value. I could also mention the incredible liquor policies adding thousands of seats in competition, and other nagging problems, but I think you've got the message. Government has to work more closely with industry before real progress can be made. It will be to everyone's benefit. I can recommend that government take a look at the tremendous strides we have taken of late in joining with our labour component in promoting the industry and keeping costs in line, and working with the community for the benefit of all. We are encountering an enlightened new union leadership, and that is a development that is very positive indeed.

So what's the bottom line? The bottom line is change.The new money is changing the industry for the better, and will continue to bring more change in the future. Government must change to align itself more closely with the needs of our increasingly important industry

We are now competing with the great cities of the Pacific Rim—Hong Kong, Tokyo, Sydney, Singapore—for business travellers and tourists alike, so we cannot afford to set our sights too low. The new investors have brought new standards, new expectations of excellence and a new vision with them, and that is a development we can ill afford to ignore.

The recent purchase of Coast Hotels from our family by the Okabe Group of Tokyo represents the cutting edge of this change, of this new order. It marked the first major investment by offshore interests in hotels outside of the Vancouver-Victoria-Whistler triangle. Management was left in our hands and challenged by putting $100 million of new capital into a B.C. based firm, and in doing so, is bringing the entire province into the exciting new game being played in our major centres during the past two years.

I challenge you to believe the new realities, to work together to make sure we win that game, and to win it by increasing business, growing, and creating new jobs and new prosperity. We will do our part! We recognized that to thrive we had to change our outlook and look ahead! Good luck in your decisions for growth. You must do it to survive!!

Questions and Answers

Question:

You must be aware of the boom of the hotel industry in Victoria. What occupancy levels are required for the justification of a new product, a new building, and a new hotel? And how would you relate this to Victoria, right now, and in the future?

Mr. O'Neill:

We're quite excited about Victoria. Hopefully we will announce a waterfront hotel within the next week or so. We're also looking at building a second major hotel in downtown Victoria. Given the construction costs and the land costs in that city, to be reasonable you have to look at about a 72% to 75% annual occupancy with a rate in the low hundred-dollar range on an annual basis in the core area. We think those can be achieved and that the capacity in Victoria has to be increased.The tourism in Victoria has been driven by the Pacific Northwest and has not been open to the offshore markets. They do not understand Victoria. They understand Niagara Falls a lot better than Victoria. I think we've got a heck of a product there that we can sell to the offshore people.

Question:

The Japanese have low interest rates. How do you think a local investor can prosper and at the same time compete at the same level with the Japanese investors? What do you think the government and local investors could do?

Mr. O'Neill:

There is no room in the luxury market. You cannot compete in that. The cost of funds which we borrow locally cannot be justified on the returns of a luxury hotel.

Banks won't lend into them. I think the luxury hotels, which are the interest of the offshore investors, will be their game for a while.

I think what you have to do is pick the market segments that you're going to be in. There clearly is no offshore interest in the budget hotels. There is less interest in resorts. The all-suite is a new phenomenon. So you can pick your places, and look at lower capital costs. I would pick my places in the golden triangle for the next two or three years. The banks will not back anyone until they see someone making a profit.

Question:

Obviously the additional capital investment being made by the new owners of Coast Hotels is going to allow you to take advantage of new trends in the hotel industry. Can you share with us some of the things that you see coming in the immediate future?

Mr. O'Neill:

We're looking at a totally integrated computerization of the chain. To grow at the levels we're talking about, we have to be "connected." We have to take advantage of the new technological leap. We need a central system that will record accounting, check outs, etc. If a hotelier wants to be successful today he must use technology. Another important point is to recognize leisure as a big role for our guests in western Canada. Our guests are more sophisticated now and they expect good service. They want twenty-four-hour room service. They want a club, a restaurant, bars, etc. When I first went to Gold River in 1972, it was quite a thing to have a bottle of wine in the inventory—and I remember it was Baby Duck, and I didn't sell that for the first year. Now, you go there and they are very sophisticated. We've got quite a wine cellar; they want more and better.

Question:

Do you see that sophistication of hotels spreading outside the golden triangle?

Mr. O'Neill:

Yes, we're going to do it. One of our challenges as an organization, and one of the reasons I think we were successful is that we've endeavoured to take care of those customers who go to work in Toronto and Vancouver and travel in those marketplaces. If you are going to Prince George, you're going to stay in the best place. If you're already used to paying $105, but the best place in Prince George costs you $60 instead of $54, you won't mind paying the extra. And we're going to improve our hotels. Our number one challenge is to bring our own hotels up to snuff.

Tourism: An Airline Perspective

Sidney Fattedad
Vice President, Pacific Region
Canadian Airlines International Limited
Vancouver, B.C.

I want to stress the important value of tourism to you so that you will be convinced of its merits and we can work together to build growth in this industry. The more efforts, resources and focus that is put into tourism development, the more travellers will be coming to this region and the more passengers we will be carrying on our flights.

Overview

First of all, let me give you a brief outline of how I am going to take you through this subject. I will elaborate on the relevance of tourism to an airline, discuss its value to the public in general, and where we see the growth coming from in the future. I don't want to bore you with a great deal of statistics, but I do have some numbers that in chart and graph form paint a very vivid picture of the trends we should be aware of as an industry. I'll then focus upon the strengths and weaknesses of our tourist product and plant, as perceived by Canadian Airlines' foreign based offices and other sources. Also, some comments on the competitive environment are relevant. We need them to review some infrastructure issues, strategies to deal with the opportunities, and then I'll give you some insights into Canadian Airlines' own plans to face this future. Having taken you through this extensive process, I'll then summarize what I have said.

Tourism Relevance

The relevance of tourism to the airline industry is profound. We, in our business, commonly consider the tourist as the passenger who is travelling for purposes of leisure, touring or visiting friends and relatives. We generally lump the business traveller or conventioner together as a non-tourist traveller simply because our product lines better suit this kind of definition. As defined, 20% of our international traffic falls in the non-tourist category of travel depending upon the market under consideration, i.e., out of the Orient it is 30%, out of Italy, it is 15%.

This isn't necessarily how other non-airline participants view the definition of tourist. They take the broader approach that defines anyone coming from another country or region for purposes of business or leisure travel as a tourist. On the basis of this broader definition, tourism has absolutely everything to do with our business since 100% of our customers are either inbound or outbound travellers.

The narrower definition of tourism is useful because the promotional activities to attract it, be it from a country, airline or small business perspective, is remarkably different. However, let me proceed with my discussion on the basis of the broader definition that a tourist is someone foreign to this geographical region of British Columbia.

In terms of value to us, as an airline, the amount of revenues we receive from tourists originating from different places, is a good measure. Of course, it is then up to us to turn those revenue values into a profit in order to measure the true relevance in our operation as a going business concern. By geographical region and in rounded terms, the revenue value of foreign tourists to us as an industry is as follows:

The Orient	$1,350
Europe	$1,200
South America	$1,450
South Pacific	$1,700
U.S.A.	450
Ontario	450
Alberta	250

The value pertaining to Canadian Airlines per se in the case of the U.S.A. is somewhat less than $450 because of the extent of our route network. For instance, a tourist may originate in Texas, but we, as an airline, can only carry him from Los Angeles to Vancouver, so we are only getting half the total revenue.

Now that we have seen the airline's revenue priorities, what about the rest of the industry, the ground-based operators? As you know, a survey was conducted by the province of B.C. in 1987. It showed that the overseas traveller, as in the case of the airline industry, makes the greatest contribution, although the Ontario traveller's spending is almost the same.

Overseas	$560
Ontario	$550
Alberta	$190
Washington	$140
California	$320

The overseas traveller spends more money essentially because he stays longer; 10 days versus 4.5 for the American and 6.5 for the Canadian.

The B.C. survey does not provide any detail with regard to the specific overseas markets but Statistics Canada does. They show that the Swiss spend the most in British Columbia followed by the Japanese, the Germans and the Hong Kong tourist. The British and Dutch spend the least.

Switzerland	$640
Japan	$540
Germany	$530
Hong Kong	$510
France	$470
Australia	$440
Britain	$390

On a national scale pertaining to a trip throughout all of Canada, the citizens of the top three countries spend over $750, suggesting that a number of the travellers visit more than just one province.

What is the relevance of this expenditure pattern to the overall value of the different origin tourists? Essentially, it is that the quality of the overseas traveller substantially increases the relevance of these types of visitors. Overseas tourists that accounted for only 10% of the total travellers contribute 18% of tourism revenue, while U.S.A. travellers that accounted for 56% of our out-of-province tourists make 41% of the total expenditures.

Tourism Trends

What are some of the trends in tourist travel and what does this bode for the future? In 1963, overseas tourists accounted for 1% of the total visitors. By 1987, this had reached 10% or a ten-fold increase over the twenty-four-year period. Don't forget that on the spending side of the ledger, overseas tourists currently account for one-fifth of every tourist dollar spent in this province.

In terms of the transportation mode chosen to reach B.C., air travel has grown dramatically in importance. This has been a function, I think, of the fact that overseas travel is playing a bigger role and that the price of air travel has not increased at the same pace as other modes of travel. In 1979, 19% of the visitors came by air, but in 1987, it was almost a third at 30%. As you can see, air travel is playing a bigger and bigger role in the movement of tourists to this province.

Growth

The greatest growth in overseas origin travel to Canada is coming from the Pacific Rim countries, most notably Japan. In 1981, there were twice as many tourists coming from the U.K. as there were from the next biggest market, Germany. However, only seven years later Japan had become the most important, surpassing the U.K. by 20% and Germany by 80%, both of which were larger markets in 1981. Japan market growth itself was 170%, while the U.K. grew only 7%. At the same time Germany grew by 44% but, again, Pacific Rim country growth outpaced this increase with Australia growing by 64% and Hong Kong by 100%.

In spending, the Pacific Rim growth is even more dramatic. Japanese spending in 1981 was 64% of the U.K.'s and 88% of Germany's. By 1987, it was 80% to 100% greater than that from the U.K. and Germany respectively. Japanese spending in this time frame quadrupled, as did Australian, while Hong Kong spending more than doubled. On the other hand, the U.K.'s grew by 50%, Germany's by 80% and Netherlands spending actually dropped. Switzerland had the greatest spending growth of European countries at 210%, but its base is very small, only one-seventh of that of Japan.

Will these travel trends hold for the future? At Canadian, we think they will. Economic activity, trade, migration, global awareness, increased buying power of a foreign currency, etc., are all factors that influence foreign travel, in general, and certainly travel to B.C., in particular. We see all these elements as having a positive influence on travel to B.C. with the major growth emphasis coming from the Pacific Rim.

A key factor in a country's propensity to travel abroad is the economic prosperity of the nation and the increasing disposable income to finance such travel. In terms of economic growth, it is expected that the world's fastest growing economies will be in the Asia-Pacific region with Europe falling below the projected world average growth. The major aircraft manufacturers have forecast a 3% increase in Japanese gross domestic product over the next decade, which is .3% above the world average of 2.7% and ahead of European economic growth at 2.6%. The rest of Asia is expected to increase by 5.1%.

In the shorter term horizon, the Organization for Economic Co-operation and Development (OECD) has forecast Japan's growth at 3.3%, the U.K.'s at 2.8%, France's and Germany's at 1.5% and other Asian countries at 7.3%.

Not only are the economies of the Asia-Pacific region very robust, but there is a growing affinity between B.C. and the countries in this region. The joint federal/provincial agreement to create the Asia-Pacific initiatives organization is an indication of the priority of this region to Canada and B.C. and will indeed stimulate the future growth of trade between B.C. and, in fact, all of Canada. The focal point, of course, will be B.C.

Even before this initiative was taken, the shift in the balance of Canadian trade, toward a greater importance of Asia over Europe, has increased the affinity between these countries and Canada. This has been followed by a change in Canada's cultural make-up. The trade between Canada and Asia, now at 51% of the geographical regional total, has moved from 25% in 1966 and 14% in 1946. B.C.'s position, in terms of this shift in trade interest, is even more dramatic.

The implications of the trade and cultural shift is that Canada is fast becoming an interesting, less threatening, comfortable place for Asian residents to visit. This is reflected in the accelerated growth in foreign visitors from these countries to Canada.

Of similar influence on economic development in the stimulation of travel, is the actual cost of travel, which can be very dramatically affected by changes in exchange rates and government policy directives. The continual long-term depreciation of the dollar, relative to European and Asian currencies, has made travel to North America and, in particular, B.C., a real bargain for the residents of these nations.

For instance, a Canadian hotel that cost a Japanese traveller 18,000 yen in 1985 now costs only 9,000 yen. I think you can appreciate the interest in travelling to a foreign place when the costs are suddenly half of what they used to be.

With prices at home in Japan remaining constant or marginally increasing and costs of the ground components coming in at a 50% cost reduction due to currency changes, any inhibiting factors are quickly eliminated. We have effectively taken advantage of this situation in much of our foreign advertising in the last several years.

Government directives such as limitations on the amount of funds that can be taken out of a country may inhibit travel to foreign destinations. On the other hand, directives which encourage travel abroad, such as Japan's method of reducing its huge trade surplus, can stimulate travel to B.C. As we all know, Japan is encouraging its people to increase the 1987 figure of 5 million overseas visits to 10 million by 1990. So far, the pace seems to be ahead of the target.

The major aircraft manufacturers are forecasting the following rates of annual passenger traffic growth by region:

Market	**Annual Growth**
Asia	11%
South Pacific	7%
Europe	4%
South America	5%

Canadian believes that Asia-Canada traffic will grow at about twice the rate of Europe-Canada and that Japan to Canada specifically, if properly marketed, will increase at a rate of 25% per annum in the next three years.

Most countries with a major ethnic population base living in Canada perceive this country as a safe, acceptable tourist destination. This perception is based upon the fact that if family, relatives and/or friends find Canada agreeable enough as a place to live, then it will not be a threatening travel experience.

Market awareness is assisted by word-of-mouth communications. Price/product and comfort advertising reminders are adequate to encourage foreign travel to Canada from such countries with large ethnic populations living in Canada.

Product Life Cycle

Separate European countries are at different stages in the tourism product life cycle. Over-extended familiarity at life cycle maturity can breed disinterest. The classical example of a product at the decline in product life cycle is the U.K. On the other hand, Italy, with the greatest influx of immigrants taking place in the last twenty years, has seen full product maturity just now being realized. The extreme case of a product at the early introductory stage of life cycle is Asia, where awareness of Canada is still very low.

Canada's greatest opportunity for market development lies in those countries where product life cycle is at its introductory explosive growth stage—in other words, the Asia-Pacific region.

Strengths and Weaknesses

The B.C.-sponsored survey of tourists in 1987 found that the most positive aspects mentioned were friendliness (20%), scenery (17%), gardens (12%) and weather (10%).

Tourism Canada's research in Japan found the following aspects to be of general interest to Japanese tourists (listed in order of their importance): outstanding scenery, value for money, cleanliness, good shopping, opportunity to increase knowledge, sightseeing excursions, personal safety, high-quality restaurants, and a warm welcome

Although Canada ranks high in several of these items, we are not perceived as having good shopping, good restaurants, museums or art galleries. We would have to conclude that B.C.'s strengths are in scenery, good price/value, cleanliness, personal safety and a warm welcome. B.C.'s weaknesses are the perception that we don't have good shopping, knowledge enhancements (i.e., cultural opportunities), and high quality restaurants.

Canadian Airlines' overseas offices have made similar observations. In terms of strengths they have observed the following: scenery; cleanliness and safety; friendly people; attractive wilderness and nature; ideal destination for incentive travel; attractive as an adventure, camper, and mobile home desitnation; gateway to other places; and good value for money.

On the negative side, one of our big weaknesses is in public awareness. In Germany nobody seems to know too much about us. In Hong Kong people know of us through immigration, but this does not translate into a positive tourism-generating stimulus. Major problems with customs and immigration in Vancouver have created a very bad image for B.C. in Hong Kong. We seem to have little assistance from the City of Vancouver tourism groups in developing awareness of the city and B.C. as a destination. Several offices suggested that physical presence by B.C. in the foreign country could assist in building better awareness of the province as an attractive destination. Our U.K. office commends the efforts of Tourism B.C. in jointly promoting the province to the travel trade.

Competition

The United States is Canada's major competitor for foreign overseas visitors. Overall, the product range is very similar, but the product line is much more extensive. For example, Canada has three major big city products while the U.S.A. has over twenty. The U.S.A. has a warmer southern climate with numerous beach resort possibilities. Canada has only a few and not of the same quality. Canada has the Rockies, so does the United States. The United States has world recognition and awareness in day-to-day political, economic and social events. It is the United

States. The awareness is profound. Persuading the foreigner to experience that awareness is another matter, but overseas curiosity and the American way has its appeal.

The U.S.A. will be the recipient of accelerated Asia-Pacific tourism. Canada and its airlines must find a means of taking advantage of that market growth by stressing the possibilities that derive from proximity and the opportunity to double a visitor's travel opportunities.

Australia is also aggressively marketing to Asian travellers and successfully increased travel from Japan by 60% in the last year.

In the airline business, Canadian Airlines faces substantial competition from foreign-based airlines in overseas markets but is not really a big player in the U.S.A. market because of air bilateral constraints. We are building our level of frequency and capacity in overseas markets to stay ahead of the competition with almost triple daily service from the Orient to Vancouver in the summer, almost double daily from Europe and five a week from the South Pacific. Our domestic services are fully competitive with Air Canada and our California flights are running at seven a day in summer.

Infrastructure

I would like to focus my infrastructure comments on the airline side of the requirements, including the affiliated functions of airports, government and aerospace provisioners.

The rosy picture of growth for Canadian Airlines and the tourist industry could be constrained because of the following factors:

- Airport slot restrictions at Vancouver due to runway shortage.
- Slot restrictions at foreign airports preventing flight frequency increase.
- Air traffic control limitations.
- Vancouver Airport terminal capacity saturation.
- Seat capacity increase limitations imposed by the Japanese.
- Lack of additional routes negotiated bilaterally with the U.S.A.
- Continually perceived customs and immigration harassment of Asian traffic at Vancouver.

- Lack of a sterile transit facility at Vancouver to facilitate the movement of sixth freedom traffic through Vancouver, which allows the airline to build frequency of services at Vancouver. Sterile transit facilities require changes to government customs and immigration regulations.
- Advancement in aerospace technology which results in lowered operating costs for future economically viable airline operations.

Canadian Airlines is most concerned with the airport situation at Vancouver and abroad. We desperately need a new runway to properly handle our current needs, let alone future growth possibilities. With the rapid increase in Asia-Pacific business and prosperous economies spewing more and more tourists to those places that can take them, we are going to have to expand terminal facilities in order that the system saturation does not cause the airline capacity to go to other gateways. Seattle diversion of this traffic will cause some of these customers to simply stay in the U.S.A. and not come to Canada. This certainly does not benefit the tourist industry.

At the same time, air traffic control (ATC) systems that cause delays in flight arrivals and departures, both for foreign flights and domestic services, will leave a poor impression in foreign customers' minds which will get back to other potential travellers through word-of-mouth. Worse yet, if the ATC system really reaches overload and we have to cut back on our schedules, then the tight capacity situation resulting in high load factors could deny tourist entry to Canada no matter how hard we might merchandise.

We have a similar concern with this infrastructure saturation at the foreign end as well. If we are denied slots in Japan or in parts of Europe, such as Frankfurt, Munich or Amsterdam, then we will be unable to bring additional tourists with their substantial spending to B.C.

It is very important that the aircraft manufacturers continue to provide technological enhancements that keep airline costs down so that these can be passed on to the travelling public. Price elasticity for the leisure traveller means that fare decreases relative to the cost of living will encourage additional tourist travel.

The aerospace industry is also developing a longer range aircraft of reduced total seat capacity, at lower seat mile costs, that allows for more direct flights which will encourage travel from smaller foreign markets to B.C. These product enhancements can only lead to traffic stimulation. Good for the airlines and certainly good for the tourist industry.

Cost of Doing Business

Canada's currency devaluation relative to foreign currencies has been a real benefit to the tourist industry in making B.C. very affordable to the foreign visitor.

However, the downside is that it has made it very expensive, in Canadian dollars, to market our product abroad. For example, advertising that cost $1,000 U.S. in February 1986 in primary overseas markets, would cost the following today:

Market	Current Costs
Japan	$1,500
U.K.	1,150
Germany	1,300
France	1,200

This cost of doing business is a major reason for the industry to co-operate in joint marketing campaigns in foreign countries.

A Canadian Strategy

In order for the Canadian tourism industry to take full advantage of the opportunities I have outlined, I would like to suggest three strategic thrusts that we should adopt:

- Co-operative marketing.
- Concentration on our product strengths.
- Knowing the customers' needs and giving them what they want.

In view of the implications of the Canadian dollar devaluation on the cost of merchandising abroad and the extremely competitive environment, I feel that it is extremely important that the members of the industry work together as much as possible on co-operative ventures. Such co-operation maximizes the efficiency and effectiveness of marketing products of mutual interest. It allows both parties to stretch advertising dollars without compromising the integrity of merchandising messages.

I have to give credit to Tourism Canada in this area with the many joint marketing arrangements that have been developed to date. The airline industry in Canada is very active in these arrangements, with both national carriers having made agreements with Tourism Canada. Where possible, the provinces should be brought in as long as the message integrity is not lost.

For the airlines the product is air transportation, which fulfils a traveller's desire to experience a destination product. Air travel is derived demand; nobody purchases it unless they want to visit the place of destination. Consequently, to market its product, the airline job is twofold: first, to convince the potential tourist to visit Canada; and second, to encourage the traveller to choose the airline to get there.

Product and destination awareness combined with unique selling features of the airline in terms of price, tour package, flight frequency and service are messages that contribute to mutual market-share objectives.

I would like to suggest that these functions be expanded as much as possible so that we take full advantage of our combined efforts.

I think we need to concentrate on building on product strengths to better compete in the world environment rather than diluting our efforts with those products which are inferior to that of the competition. For instance, I know that our research tells us that the big city market is important in various foreign countries, but let's face it, there is keen competition for this interest and our cities are a lot less attractive than some of the major international capitals.

I think we have to better understand our customer needs and their perspective to be able to sell them what we have. Let me use an example to illustrate the point. Several years ago a familiarization tour for German travel agency owners was conducted in B.C. The group was taken to the Interior of the province and shown various historical sites. Showing a 120-year-old site to people who are surrounded by centuries and centuries of history at home, really isn't very impressive.

Then the group was taken to a room and shown a video of what was available in the immediate vicinity. You fly people 7,000 miles to show them a video that you could have sent by mail. Really, we need to be a little smarter in highlighting the unique selling features of our product.

I think we should all appreciate that we need to get our act together in order to effectively compete in the global environment.

Canadian Plans and Marketing

In order to take advantage of the significant Asia-Pacific growth opportunities, Canadian Airlines will increase capacity on its current routes from Asia and introduce service from additional points of origin. In order to increase capacity Canadian Airlines has ordered new aircraft. In 1990 we will receive three state-of-the art B747-400s which we plan to introduce on the Vancouver-Tokyo and Vancouver-Hong Kong routes in addition to services that will be flown between Toronto and Tokyo with this equipment. The added capacity will allow us to address the phenomenal growth we envisage coming out of the Asia-Pacific region.

In addition to capacity increases on existing routes, we will be introducing new direct services from Nagoya this summer and in 1993 will start services from Osaka. In the not too distant future we will also commence services from additional points in the Asia-Pacific region, including another point in Australia and two more countries in Asia. We will also be linking our Asian points to Europe within the next three years.

We expect slower growth in the European market in the future compared to Asia, but we see our participation expanding as we introduce service from additional points in Europe, such as Russia, Finland, Stockholm and Copenhagen. As you may or may not know, we only started services from Frankfurt to Vancouver last spring and this summer we will be offering a daily level of service. Our Munich flights from eastern Canada started in November 1988 and we will operate four flights a week from Munich this summer. We will continue to add capacity to our traditional points in Europe in the future, subject only to airport slot restrictions.

In the marketing area, we developed a joint campaign in conjunction with Tourism Canada involving a budget of $2 million to advertise and promote Canada as a tourist destination in a number of foreign countries. A great deal of these funds in Japan were allocated to the western Canada market. The campaign included promotion in Australia, Thailand, Hong Kong and California. The province of B.C. participated in the Japan campaign and, to a much smaller degree, in the campaign in some of the other countries.

We have a foreign-based staff level of 600 people who are actively selling B.C. and other points in Canada as tourist destinations. We also have three special fares known in the trade as *VUSA*, *Europe-Go-Canada* and *Skyrail Pass* at a 25% to 45% discount to encourage tourism travel within B.C.

Summary

B.C. has considerable strengths that make it a good tourist product. We are also fortunate to be geographically located on the Pacific Rim, which is expected to have the greatest economic growth in the foreseeable future, which will rapidly expand the markets for foreign travel. The product strengths of B.C., if properly marketed (particularly and most effectively on a joint co-operative basis) combined with rapid Pacific Rim market growth, could double our tourist revenues in eight years. We must be careful to address infrastructure issues that can inhibit this growth.

Canadian Airlines will be responding to this opportunity and invites other members of the industry to work with us to maximize our efforts.

Questions and Answers:

Question:

What kind of strategy does your organization have to promote domestic travel? From my experience it is very difficult to sell any type of tourism when a short forty-five-minute minute flight to Penticton costs $219. Furthermore, your flights are not always on schedule because larger planes take first priority. In this question I am referring to both international and Canadian travellers flying to Penticton.

Mr. Fattedad:

In order to attract tourism from overseas into Penticton, you have to have the plant there which will attract the overseas tourists in a continual stream and which will draw in large groups of 40 or 100 every day. Until you build that plant and that infrastructure, there is no point in giving you the right fares or getting the right fare structure going. The right fare structure will always be there as long as the demand is there.

In terms of promoting tourism domestically, we all know that a family of five is not going to travel by plane to Penticton, they'll drive there instead. It's a lot cheaper and there's no way we can compete against those kind of economics.

Question:

I would like to further expand on that question of domestic air travel. The gentleman mentioned Penticton. Take a look at Cranbrook. It's twice as bad. You can literally fly from here half way to Hawaii, or all the way to central Canada for the same price and far better service. When is your airline company going to improve your domestic service in this province and give us the opportunity to develop our businesses? And for you to say that a family of five would not fly—I can assure you, they would if your prices were competitive.

Mr. Fattedad:

I will refer first to the cost of domestic air travel. If you look at the pricing structures of short sector travel, probably throughout the world, you'll find that we're not anywhere near as bad as you think we are. That really is a reflection of the economics of running an airplane from A to B for forty-five minutes to get up and get down . You ask, "Why don't you reduce your fares by 50%?" If we did that, we'd go out of business.

You can say, "Drop your fares to 50% and you'll stimulate traffic by 25%." Why would anybody do that?

I'm not arguing with you that there isn't a case for lower fares to stimulate travel between points that are 300 or 400 miles away. That's not the answer to tourism. You want bigger airplanes, you want bigger airport facilities. You want an airplane that's going to carry 300 people from here to Cranbrook. And you want to have facilities in Cranbrook that will take 300 people all the time.

Question:

How many times does one of your aircraft touch down in Penticton, Cranbrook, or any of the other Interior points, when that aircraft is less than 50% full? I've travelled them a lot of times, and I can suggest to you that if you look at your records, that they are less than 50% and that proves that you don't need larger aircrafts.

Mr. Fattedad:

I'd like to claim that I have that information, but unfortunately I don't. Maybe it wasn't explained that I don't look after that part of the world. My expertise is within the Pacific area. But I would suggest you're right when you say about 50% to 55% load factor.

Profiting from the Outdoors: Adventure Travel Is Not All Risk

Robert Wright
President and Owner
Oak Bay Marine Group
Victoria, B.C.

Although it is a pleasure to be here, I must confess, I am a bit nervous. You see, I am a high school dropout. The last time I was involved with a university was in Edmonton where I sold newspapers at the University of Alberta. It was my introduction to the life of an entrepreneur. You might say I received my degree from the University of Life. What I am about to share with you today is my thesis for a Ph.D. I might add, one from the same university.

My appointed task during this half hour is to convince you that *Adventure Travel Is Not All Risk*. I didn't pick the title, and in fact, it gave me a bit of a problem. First of all, to get to where we are today I took a helluva risk. As a matter of fact, many of my colleagues and advisors at one time or another thought I was crazy. If our programs had failed, they probably would have had me committed. But with a little luck and good timing, we made it.

Secondly, after twenty-five years of burning the midnight oil, lots of heartburn, high blood pressure, and trial and error, we are now being asked to share our formula and secrets with the world. This in turn encourages more competition in the market place, stronger demands for some of my key staff, and, perhaps, crowding in some sensitive fishing holes. I feel a little like the man feeding the alligator. So be it.

Our company started from a humble beginning in 1962 with a first year's revenue of $17,000 and a net profit of $1,000. My role was to run the operation, guide fishermen and pump gas. Those were the days when I learned the first economic reality—pay your bills if you ever want financing in the future.

It all started when I had a dream while working for a newspaper. I loved to fish and thought maybe one day I could guide rich Americans and have a small fishing business of my own. I needed a vehicle and the only source of money was from a financial institution. No problem. All they needed was a co-signer. I asked my father and he agreed to co-sign. The bank turned him down. You can imagine the embarrassment. The first and only time his son asked for help and he couldn't give it. He had failed to pay a grocery bill at the corner store during the depression.

So the first lesson is "Always pay your bills"— bad credit records go on forever.

The second lesson is "Establish a track record for dependability." I didn't have enough money to make payments once a month, so I paid every five weeks. It worked. That was my first financial plan and no one complained.

Back to the dream. We recognized early the dramatic growth in popularity of outdoor leisure activities, the increasing availability of disposable income and the emphasis on the Pacific Northwest as a desirable vacation destination. We began to compile statistics from the British Columbia Ministries of Tourism and Economic Development, along with facts and figures from Statistics Canada and the Department of Fisheries and Oceans. This was to determine the travel and recreational habits of residents of western Canada and the United States.

The third lesson: "Do your homework." I might add that this homework assisted us to seek out and know our market—which of course is lesson four. There are many small operations in B.C. that have been floundering during the past several years of fantastic growth. They still don't know their market.

Lessons five and six are easy: "Know your product" and "Know your competition."

You might say these are Wright's Six Business Commandments. They seem to have worked for us, at least I think so. We have become the largest sport fishing operation in North America. Soon we will be privileged to serve over 40,000 guests each year, our gross revenue will be over $19 million, and in high season we will have over 700 employees. Last time I checked, it was 600 in 1988, but my vice president of operations informed me we are growing by another 100 employees in 1989.

In the past five years, we have experienced a 665% growth in revenue and a 480% growth in employees—not a bad make-work program.

"Our fish stories come true." This is our slogan in our marketing program, and it's true. More than 70% of our guests return the following year.

Let's take a closer look at applying the various lessons which helped us on the journey toward a successful business enterprise.

In order to analyze the journey, we must turn the clock back to 1975 when we studied the fishing experience at Westport, Washington. It was awesome and looked like the evacuation of Dunkirk every morning as the boats left the harbour. Here was a little town at the end of a two-lane highway that was totally dependant on fishing. Over 300 large boats would go out over the bar just after daylight, each carrying from six to thirty fishermen eager to hook into a scrappy Pacific salmon.

It was worth thinking about duplicating on the west coast of Vancouver Island where, in my opinion, the salmon fishing was better.

We studied the fishing opportunities from Mexico to Alaska, from the "ma and pa" operations to the largest: what did industry have to offer? Very little. Every fifty miles methods changed, and we found out that very few operations checked their competition during peak season. After all, they were too busy.

During this period of time, and the preceding ten years, I continued to hone my skills as a sports fisherman, which gave me a consumer's view of the product. This was very important. Two other important factors surfaced.

- If you located a sports fishing operation behind commercial net lines, you fish the remnants of the run. In other words, the success rate drops considerably.

- Government legislation, through allocation of the run between user groups, can wipe out a sports fishery, and we in the sports fishery depend on expectations and opportunity.

Market research revealed that sports fishermen are in all levels of the economic spectrum. Income does not necessarily indicate an interest or lack of interest in sports fishing. Bank presidents to window washers love to fish. Some have the economic ability while others must dream. It was our job to set a plan in motion to tap this lucrative market at all levels.

The plan called for five quality fishing resorts strategically located in British Columbia. Let me be more precise and use the analogy of the restaurant business.

• McDonalds	Product consistency; low price; quick turnover and mass market. This became the Canadian Princess at Ucluelet.
• Keg & Cleaver	High energy; good product; value for the money; customer satisfaction. We believe our Painter's Lodge fits this mold.
• Hy's Steakhouse	High end-product; check average higher; customer loyalty. Our Marabell and King Salmon fit this category.
• The William Tell	Exclusive; expensive product; limited entry; truly an experience. An apt description of our Charlotte Princess.

This plan assured that we could cover the market with a variety of quality products at a price for every pocketbook.

We set the plan in motion. The first move was to station our MV Marabell at Hakai Pass. This ship was formerly owned by Dr. Ballard of dog food fame. I spent considerable time on the Marabell and returned to the basics as a fishing guide.

Nothing escaped my attention. It was an instant success. This year we are expanding our operations to include the Kitimat area early in the season. There is a good run of hatchery chinook in Dean Channel near Kitimat.

Next came the Canadian Princess, which we located in Ucluelet. It took me almost a year to learn how to spell the name of the town. Why Ucluelet? It is ahead of the net lines in Juan de Fuca Strait, at the end of the Queen's Highway, near an airport, and near Pacific Rim National Park, a growing area of tourism.

We named our ship the Canadian Princess for a good reason. "Princess" gave the public the idea it was a ship, and "Canadian" identified geographic location for our U.S. market. This was just after the Iran incident when our ambassador helped U.S. nationals escape. We were very popular. Why not capitalize on it?

The operation was a miserable failure. The first season we lost $500,000 in operational costs alone. People-wise, it was a feast or a famine. On a holiday weekend when the weather was good there were more people than we could handle. Two days later with the rains, we were lucky to have two guests. It was an impossible situation with a staff of forty or fifty to keep busy. We came to the conclusion if we took the ship out to deep water and sank it we would be $500,000 a year ahead.

Then the light went on while I was visiting Prince William Sound, the home of the recent oil spill. We were at a little airport in Gustavis (my wash rooms are bigger). I had chartered a small plane in from Skagway. We were astounded to see two 707s arrive, loaded with tourists, for a trip on a day boat in the Sound. They had Smokey the Bear—that's a park warden—telling the tourists all about the wildlife, which, in my opinion, was few and far between.

We had more to offer. This could be the way to go. We could smooth out the peaks and valleys by offering package, fly-in trips. We decided to conduct a test for the month of September and went to Air B.C. to charter a Dash-7 fifty-passenger aircraft. It worked.

Today, we have nine flights a week with fifty passengers on each, and in 1987 we had a 99.46% occupancy rate for the season. We have built three additional on-shore accommodation buildings and now handle over 200 guests a day. The worm had turned.

We have added whale-watching to the Canadian Princess during March and April each year, and these tours have become so popular, we book out two nearby motels as well.

We have a fleet of ten offshore boats with licensed skippers and engineers, and I am pleased to report several small businesses owned by local people have surrounded the Canadian Princess, including Pizza Hut, gift shops and delis. They all seem to be prospering. Needless to say, I have given up the idea of scuttling the Canadian Princess.

Next we acquired King Salmon, a shore resort at the head of Rivers Inlet. A friend of mine owned it, and he lost his life in a float plane accident. Most small resort operations own float planes; I guess maybe it is a status symbol. Unfortunately, there is a risk involved, and I lost another good friend last year in another plane crash, Ken Frieson from the Big Springs resort.

Anyway, King Salmon, which operated under another name, was a mess. The physical plant was tired and the owner had sold several life memberships as a way of raising capital; also, the company had major tax losses. But it was a magic place; Rivers Inlet, a world recognized area for giant salmon. We moved in, rebuilt the resort, gave it a new name, added a thirty-two-passenger water taxi to give our guests access to the mouth of the inlet when fishing was slow at the head, and I am pleased to report we have never looked back.

As the stocks of chinook salmon were being depleted by the commercial fisheries, we convinced the eighteen operators in Hakai Pass and Rivers Inlet to contribute toward their own sport salmon hatchery at King Salmon. It worked, and this year we have released 300,000 young chinooks which our guests will have a crack at four or five years down the road. We are now going into our fifth year of operating the hatchery, and our short-term target is 1 million fry annually. The fisheries department is delighted.

If we expected to be top gun in this business we had to look seriously at Campbell River, the "salmon capital of the world." Painter's Lodge was the heart of Campbell River. Royalty and celebrities had fished the Tyee Pool near Painter's since the turn of the century. The lodge had deteriorated, however, over an eight year period; and the final blow was delivered in 1985 when it burned down.

We acquired the property in 1987, limped through the year and built a new lodge, which opened last June. We added a new residential wing last year and another is scheduled to open this June. Fifty new Boston whalers, new docks and meeting facilities are part of the $8 million investment, and the best is yet to come. Painter's is now a class act, and I am convinced it will regain its rightful place as one of the finest fishing resorts in North America.

By the way, part of our marketing thrust will be to advertise the British Columbia Tyee Club and rowing in the Tyee Pool from a new fleet of twelve Painter's Lodge rowboats.

Finally, we had to bring into our stable the last great fishing adventure, the Queen Charlotte Islands.

When my competitors opened Langara Lodge in 1985, we laughed. The only thing they did right was book two spots on the Marabell in 1984 and copy everything of ours from our boats to our menus. Copying they tell me is the sincerest form of flattery. We had our skiffs designed by a top naval architect, and they managed to get exact replicas from a mold out of Victoria.

As I said, we laughed. Langara was the wrong place. That's where storms are made. Plane schedules were unreliable. Logistics were a nightmare, and then there were the Haida Indians.

After one season I was no longer laughing. Everyone was talking about Langara. It was time I returned the favour of 1984, so my son Randy and I went up to "case the joint." It became obvious—we could not delay. The Charlottes would soon be like the Oregon land rush of the last century.

We needed a suitable ship. It had to be totally self-contained, which meant it must have the capability of carrying boats, docks and sufficient fuel and water. It had to be large enough to be economically viable—thirty people plus a crew of fourteen. It also had to have rough water capability. It had to be luxurious to justify the high ticket cost.

We conducted an extensive search and found the ideal ship in California. It had been refitted for time-share condos. The owners had gone bankrupt, and it was purchased by entertainment people. This ship had five decks and was in the 750-ton gross capacity. It was too big for a Sunday afternoon cruise so the owners were in the habit of taking their lady friends and a bottle of wine and touring the ship. Very seldom did it ever leave the harbour. We purchased the ship, cruised it to Victoria and completed a $1.5 million refit. She is a dandy.

I was correct about the logistics. They were a nightmare. When we were at Hippa Island on the west coast of the Charlottes, we arranged to use logging roads when our planes couldn't fly. We had to charter a B.C. Ferry occasionally and had a school bus on a retainer.

As for the Haidas, we met and negotiated terms of our involvement in their sites. We hired some of the Haida Gwaii watchmen as crew and also as facilitators at Sandspit. I might add that they have turned out to be a great addition to our team, and I am pleased to report that I have gained some close personal friendships with some of the Haidas at Skidegate and Masset. We now have tenure at Langara Island, along with two other lodges, and look forward to an interesting future.

We now have five premier operations in prime locations. So let's talk about marketing for a few moments. All it takes is money.

Three years ago we decided to move from individual advertising to a corporate group approach. We identified ourselves as the Oak Bay Marine Group. Our colours were dark blue and gold. We introduced a corporate logo of the jumping salmon, designed a house flag and used the key line of "world renowned resorts." Finally, we added the slogan "Our fish stories come true." We were creating a comfort zone for fishermen, and it worked.

For statistics and reservations, we added a large computer with seventeen terminals and networked several more micros into the system. We added several printers and connected our resorts for instant information. A software program was written specific to our needs, and we have added state-of the-art telephone equipment. Believe me, no expense was spared for our central sales system. This investment has paid off. Many days we book over $100,000 in trips and every month we are well beyond $1 million in bookings, including the cold dog-days of January and February.

We have a sales team of twelve people. They receive a good basic salary plus commission, and they have their own space to work in. We have regular marketing meetings and everyone contributes. Reps from our ad agency usually sit in. Our marketing tools include:

- A quality video. Over 3,000 have been given away or sold.
- An expensive, ten-page catalogue.
- A cut-out salmon—a "Readers' Digest" glance at our resorts.
- Our own newspaper, circulation of over 90,000, mailed first class to fishermen throughout the world.
- Two booths, which cover fourteen outdoor shows—a quality item.
- A Fanatic Fisherman Passport—free trips to our resorts and bonus prizes of $5,000.
- Master Fishermen Club—hats and plaques.
- Newspaper ads placed in western Canada and also heavily in the States. We try to do different things to gain potential clients' attention—George Bush ad, Painter's brochure of the fire, escape brochure to the Charlottes.

Believe me, it works. A computerized record is compiled on each inquiry as to the location of the call, the advertisement to which the client is responding, the time and date the call was made, and whether the call resulted in a sale. In other words, we can track the results of our market program.

Our postage is second only to the provincial government on Vancouver Island. We sell more fishing licences than anyone else in B.C. Our telephone charges must equal the national debt. We have a transportation division in Vancouver with a crew of seven. They purchase supplies on request for our northern operations.

They also handle the fishing licence program and dispatch our guests on our charter planes. And they handle the flow-through of fish.

Let me dwell for a moment on obstacles. Over 50% of my time is spent on problems with governments at various levels. A few examples:

- In 1988 the federal Department of Fisheries and Oceans (DFO) spent

$700,000 on a chinook-conservation newspaper campaign telling people there were no chinooks in B.C. This misguided program cost our company alone $1.5 million in cancelled business. They stayed home or went to Alaska. While this was going on, our commercial fishermen caught or killed nearly 1 million chinook, many as incidental catches.

- The chinook-tagging program was a disaster and added to the confusion. It has now been cancelled.
- The Coast Guard introduced a new policy which would eliminate the majority of the charter fleet. We went to war on this one and won.
- Partners in Tourism, a provincial program, promised us matching funds for ads in 1988. We increased the size of our ads and changed them to meet the guidelines. When we submitted our invoices after placing the ads, we were told there was no money. Now we go it alone.
- When we brought the Charlotte Princess into Canada, we were assessed 15% duty. Now the federal government wants 25%. We are in court over this one.
- Provincial and federal governments keep telling us there are programs available for economic expansion. For the past nine years, however, they have said we are "too successful and don't qualify."
- My good friend Mel Couvelier eliminated the seasonal resort tax break for all but the "ma and pa" operations. Again he told me we were too rich.
- The economic development advisor out of Prince Rupert tried to stop us from going into Langara Island. He believed it was the exclusive purview of commercial fishermen.
- The environmental branch sent us a letter to cease operations at Painter's because they wanted more sewage capacity. This was after we had constructed a deep water outfall and $250,000 sewage-gathering system approved by the local health authorities.

Believe me, dealing with government today is as uncertain as walking though a mine field in Lebanon.

How did we handle the ongoing problem of government bureaucrats? I hired one of the top two deputy ministers from the provincial government and made him my vice president of operations. I also hired a top political executive assistant, and one of his duties is to advise me politically. The problems are now theirs.

Other government problems included federal air inspectors, the province making a marine park at Hakai Pass, the requirements of the National Building Code in the boondocks, sewage-system demands and bear-proof burning receptacles. I could share other government problems with you but it would take the rest of the day.

There is a positive side. DFO is now talking about a sports fishing division with seven person-years and the provincial government is making small noises about following the federal government's lead. They are finally realizing the sports fishing business spells millions in economic gain for the province.

Just to touch on accounting and finance.

All our accounting is done in-house under the supervision of our VP Finance, who is a C.A. We finance through our banks. We have two of them and this presents a quality problem. Each wants to out-lend the other. Our debt-to-equity ratio is healthy and our cash flow makes my bankers smile.

We prepare a forty-page bank package each year and let it all hang out. We include a review of the past year's successes and failures and our budget for the following year, including capital projects.

In Toronto, Chicago or New York, we would have to run hard just to keep up to the business community. In Victoria, the land of the lotus eaters, it's easy to look successful.

Finally, a look into the future.

The federal government needs to set proper priorities for user groups. I believe these priorities should be: one, spawning escapement; two, the Indian food fishery; three, the expectation of and opportunity for sports fishing; and then the fourth priority would be for the commercial harvesters to take the surplus for market.

If the DFO can get commercial harvesting of salmon under control and set proper priorities, then with 16,000 miles of beautiful coastline, an outdoor paradise could be a playground for the world.

The commercial fishermen harvest around 30 million salmon a year. Properly managed, we only need a fraction of this total for the sport fishery. Our market includes millions of people in the U.S.A. and we've hardly touched Europe or Japan. Adventure travel time has come of age. Now we must convince our various levels of government.

Thank you for listening to my story, and I want to leave the fishermen in the audience with this fact, "Our fish stories come true".

Attractions Can Be Attractive Investments

Mr. Skip Palmer
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Management Resources is a California-based consulting company providing concept planning, project development and all phases of daily operational management to the leisure-time industry. Our clients range from the 1984 and 1988 Olympic Games, world's fairs, and major entertainment attractions to quality regional resorts and specialty centres.

We define our industry as theme parks, destination resorts, entertainment components of a larger development (i.e., regional shopping or festive centres), as well as the singular, mass attendance special events.

The title of this session, *Attractions Can Be Attractive Investments* is, in itself, a disclaimer. I am not here to tell you that attractions **are** an attractive investment, but that they **can be** given the appropriate circumstances. Our industry is filled with individuals and organizations who found them to be poor investments. North America, Europe and the Orient are littered with failures. Although our experience, as previously mentioned, covers a wide variety of leisure, entertainment and recreation projects, I am going to focus primarily on the theme park industry and the key ingredients that provide for success.

Whether referred to as theme parks or amusement parks, all entertainment parks are a medium created and designed for people to escape from their ordinary, everyday life experiences. There are, however, very distinct differences between theme parks and amusement parks, and those differences are often what separate a large scale operation from a family run business. It is generally accepted that theme parks were cultivated from the concept of an amusement park and ever since have represented the largest of the entertainment parks throughout the world.

Characteristics of a Theme Park

The traditional amusement park began as a destination for family picnics, usually at the end of a rail or trolley car track. Families would ride out of town as far as the line went, have their picnic and then ride back to town. Enterprising transportation executives found that by providing some picnic pavilions and small rides they could increase the use of their lines and the parks soon developed into day-long family outings with a number of rides and thrill attractions. This is also evidenced through the construction of resorts by the railroads in both the western United States and Canada at the beginning of the twentieth century, for example, Averil Harriman, Union Pacific and Sun Valley.

The quality and direction of amusement park development was vastly upgraded and transformed when, in 1955, Walt Disney opened Disneyland, at which point the true theme park was born. Prior to the opening of Disneyland, individual rides had been offered with themed backdrops, particularly by European ride manufacturers; however these rides often stood alone and were not part of a larger themed environment. Since the opening of Disneyland more than twenty major theme parks have successfully opened, almost all in North America.

The Essential Elements That Define A Theme Park

The parks are designed around a group of themes that have continuity. Major ride attractions, shows and exhibits are designed to provide authentic but simulated environments utilizing the various aspects of the area theme. At Disneyland, for example, Fantasyland features rides and characters from famous children's stories.

The actual ride environment often contains the main entertainment and amusement content of the respective themed areas. An essential difference between the old-time amusement parks and modern theme parks is the orientation and appeal of entertainment offered by the major attractions within the theme parks. By theming, the ride's value complements the experience.

A significant portion of the park's capital investment is allocated to those special features of the rides and attractions that tell the story or create the intended environment. Another distinguishing characteristic of theme parks is the quality and cost of the individual attractions and the developed environment. Consequently, theme park rides are sometimes several times more costly than those found in typical amusement parks.

A theme park also characteristically presents a variety of free entertainment not found at amusement parks. These may range from mock gunfights or bank robberies staged on pedestrian walkways to storybook, legendary and folk heroes roaming through the park visiting the guests. Adults tend to enjoy the activities offered as much as the children because they are given the opportunity to participate in a more complete experience than just taking a short ride. By maximizing both visitor interest and enjoyment, the visitor will stay longer, spend more money and return another day.

Finally, a theme park typically provides a unique environmental setting in which to eat and shop. The numerous specialty shopping and eating complexes that have sprung up and are now growing throughout the world attest to the idea that these activities constitute a valued form of recreation.

The major result of these differences between theme parks and amusement parks is reflected in the greater impact of theme parks on the available market. Visitors to theme parks usually plan trips well in advance and spend the major part of the day at the park. In addition, they also spend substantially more money.

Growth of North American Theme Parks

Following the introduction of Disneyland, the theme park industry began a period of rapid expansion. Four years after Disneyland was opened, new theme parks began opening throughout the United States, including the conversion of a few older amusement parks into the new format.

While growth in the number of theme parks throughout North America in the 1960s and 1970s can be attributed to market demand in the various regions, the two reasons cited most for increased levels of attendance are larger amounts of discretionary spending dollars and the increase in the ownership of automobiles. These two factors became very important to theme park owners and operators as the typical visitor was most often a "day-tripper".

After reaching nearly 90 million annual visits in 1978, the industry attendance figures began to level off. By 1985, the United States was viewed as a mature, competitive and saturated market, as the major parks were attracting just under 100 million visitors annually. The most recent major attraction was opened last month in Florida, the Disney/MGM Studios Theme Park. Two other major parks to open in the near future are the Universal Studios Tour in Orlando and Steeplechase Park at Coney Island in New York.

In general, theme park attendance during the early 1980s reflected the competitive forces and recessionary economic trends of the times. External factors, combined with urban change and market sophistication, led to an entertainment emphasis in the development of indoor themed attractions, water parks, and themed restaurants, as well as shopping malls, theatres, and hotel complexes.

Theme Parks Today

Attendance Levels

There are approximately 30 theme parks in North America that draw at least 1 million visitors annually, plus another 20 parks in the U.S. alone which can be counted as significant. Of the 30 largest theme parks, virtually all are found in areas with large resident and/or tourist populations. The primary resident population is the key market driving attendance at most theme parks in operation today. The primary resident population ranges from a low of 900,000 for Walt Disney World to a high of 17.8 million for Great Adventure in Jackson, New Jersey.

Attendance levels at North American theme parks fall into two groups; 1 million to 3 million and 3 million to 5 million. The three Disney parks are in a class by themselves attracting over 10 million visits each. At a cost of many hundreds of millions of dollars each, the weight of the investment alone was enough to set new standards for attendance. There are a number of parks in the 3 million to 5 million attendance range, including Knott's Berry Farm, and Busch Gardens Dark Continent and Sea World parks in California and Florida. For parks in the range of 2 million to 5 million, investment levels have ranged between $35 million and $120 million with replacement values equal to twice the original cost.

Major theme parks with the aforementioned levels of attendance historically have generated market penetration rates of 20% to 45% of the primary market, 10% to 15% of the secondary market and 3% to 10% of the tertiary market. Tourist market penetration rates vary significantly, depending upon the definition of the tourist and characteristics of the local area, and range between 10% and 35%.

The total attendance is a function of the total available market and the penetration of those markets. Generally speaking, the propensity to visit a commercial recreation facility decreases as the distance between the place of residence and the recreational facility increases. The resident market is normally defined as those persons residing within a proximity allowing visitation without the need for overnight lodging, usually a two- to three-hour drive time. For persons residing within this area, travel time and cost do not constitute major factors in deciding to visit a theme park. The resident market is further defined as primary and secondary markets with penetration estimates reflecting the distance to the theme park. The primary market is the resident market that is within a fifty-mile radius or a one-hour drive. The secondary market area is typically defined as a one- to two-hour drive time. The tertiary market area is the remaining resident market that is within a two- to three-hour drive from the site.

In addition, a key consideration, when evaluating theme parks, is the impact of the level of investment upon market penetration rates, especially the core market. Parks with substantial investments have experienced significantly better penetration rates compared to parks of moderate investment. A major investment is considered to be greater than $100 million.

The role of theme parks as generators of tourism is under-researched, largely because of the sheer numbers involved. Specific breakdowns of the origins of theme park visitors are not publicly available. However, with the exception of the leading vacation destination areas such as Florida and California, U.S. theme parks are still attended primarily by day-trippers. For the major non-Disney parks, it is estimated that 75% of their attendance is likely to be derived from residents living within the 150-mile radius of the site. These visitors typically drive to the park, stay for about seven hours and return home in the same day.

Early in 1986, the U.S. Travel Data Center (USTDC) conducted a study for the International Association of Amusement Parks and Attractions (IAAPA) surveying 2,000 people in the U.S. regarding their propensity to attend amusement or theme parks. According to that survey, 53% of those questioned indicated they planned to attend such an attraction between March 1 and September 1, 1986. An average of 1.9 visits were planned by those intending to visit at least one theme park. Based on the USTDC findings, IAAPC estimated that 235 million visits were made to the thirty major theme parks.

The study also showed that attending an amusement or theme park during a vacation is an important component in the vacation planning. Almost one- quarter of those planning a vacation expected to visit an attraction and almost two-thirds of all respondents indicated that such attractions played an important role in selecting a vacation destination.

The predominance of the younger age group was also reflected in the study.

Definitive data on the role of organized group-visits to theme parks is difficult to obtain. Discussions with parks located in the major vacation destinations of California and Florida suggest that bus tour group sales play a relatively minor role; about 5% of attendees are estimated to visit a park in this manner. For theme parks based in traditional vacation states, the role of domestic and international tourism is much more significant to their operations.

The role of the Disney developments in Florida's tourism is an interesting case study. Walt Disney World spokesmen estimate that 80% of their visitors originate from outside Florida. A survey of the total visitors to Florida estimated that 25% visited Walt Disney World and 27% visited Epcot Center. Overseas tourists to theme parks represent a small proportion of visitors. While many overseas visitors and tour groups specified a pre-planned visit to one of the Disney parks as part of a trip, visits by international travellers to other parks was coincidental to their itinerary.

Financial Performance and Investment

Virtually all revenues for a theme park operation are derived from visitor spending. There is some income from commercial sponsorship; however, with the exception of the Disney developments, sponsorship participation is a fairly small portion of the total revenue, about 3% to 5%.

Spending at major U.S. theme parks is in the vicinity of $28 to $35 per person per visit. This expenditure includes income derived from parking, admission, food and beverage, merchandise, arcade games, and other items. For major parks, the full adult admission prices currently falls in the $16 to $28 range. Virtually all large theme parks charge a "pay-one-price" admission which permits entry and the use of all rides and shows.

Precise financial data on theme park performance is not publicly available. Merrill Lynch has published intermittent *Theme Park Industry Reports* which show general operating profits ranging from 7% to 33% of gross revenue. The results also convey that the larger theme park operators, with multiple locations and corporate headquarters, tend to perform less efficiently than operations with tighter control and entrepreneurial management.

As a rule of thumb, many parks reinvest the equivalent of their appreciation every year. Often this is done in alternate years so that the major expenditure on a new ride or show will be made one year and heavy promotional activity will take place the following year.

One measure of the financial performance expectations of a theme park is the length of the payback period which an investor or financial institution is willing to accept. Within the financial community, most recreation projects are considered to be high risks. Payback periods of four to five years are the norm, i.e., the operating profit before taxes, debt service and reinvestment reserve of one year's operation should equal 20% to 25% of the investment. In reality however, the payback period is usually closer to seven years.

As an industry consultant for the last ten years, I have encountered many developers who believe that attractions are goldmines with unlimited profits. They fail to recognize that, like any other business, a great deal of time, effort and money must be spent, up front, in order to gather the data which will assist them in making realistic decisions about the location, theme, size and individual component mix of their project. There are several positive factors which will allow the competent and successful leader to grow and reap the rewards of a well-developed plan.

New technological concepts are evolving every day. The first true water park in the world didn't open until 1974. Simulated holography and other three- dimensional forms of entertainment are now realities. The demand for more leisure opportunities will be buoyed by the increasing pressure for the reduced working week. The home of the 1990s, and its convenience products, will free mom, dad and the family from tasks which previously kept them at home. There will be less time spent in the kitchen and doing household chores. In effect, although the growth of the population will be somewhat limited, the creation of additional leisure time within the existing market place will provide additional opportunity for expansion.

But let me be a little more specific and address what I believe to be the real opportunities for success in British Columbia. Although the opportunity for new destination themed resorts and parks is limited, small regional "leisure marts" should experience great success.

The concept of co-locating complementary activities of a like nature has been demonstrated successfully in a number of industries. As an example, every major metropolitan area has its car dealership "row" and restaurant "row". The major convenience food operators have found that, by locating their stores near their competitors, they all benefit.

The concept of regional "leisure marts" is just now evolving in North America. The mix of activities within large regional shopping centres is moving toward a greater element of entertainment and recreation. We will begin to see businesses such as cinemas, live theatre, entertainment centres, sporting facilities, food and retail stores, craft and hobby centres, locating themselves in areas earmarked in revised general plans for those types of activities—even to the extent of commonly shared parking.

Another major area for significant growth is providing suitable leisure entertainment and recreation activities for our "new" older generations. Although our parents and grandparents may have been content in their retirement years to participate in passive activities, our generation and our children's generation, who have been exposed to a much broader variety of participatory activities, won't be satisfied with the limited leisure activities available to the older generation of today.

The majority of us will be retiring earlier than our parents did. What kind of activities will we find stimulating fifteen to twenty years down the road?

Regardless of the type or scope of facility a developer may contemplate, the real keys to success may be found in the answers to the following questions:

- Who is my market?
- To what degree are they seeking passive versus active participation?
- What is the proper size of my development?
- What is the proper mix of activities?
- What capacities do I need?
- Have I assembled the appropriate management team with relevant experience?
- Have I given them the tools and skills necessary to be effective managers?
- Are they capable of preparing their staff for their key role in this high public contact, service oriented business?
- Am I sincerely committed to maintaining a clean, wholesome and friendly environment?
- Am I prepared to spend the money to keep my show "fresh"?
- Do I have a refurbishment and revitalization plan?

The honest answers to these and the many other critical questions will provide the information to determine the project's viability. Even if a large capital investment can be substantiated, it only provides the "hardware" necessary to establish the business. The key ingredient lies with the cast assembled to bring the show to life. We cannot overlook the simple definition of the leisure industry: it is people entertaining people.

The Future of Theme Parks

The future of theme parks will depend upon the owners to make timely changes in rides, facilities, entertainment attractions and special promotions. It appears that theme park owners have two principal strategies. One is to maintain market share. In spite of the static visitor attendance levels of the last few years, by providing new rides and experiences with creative marketing, theme park owners will have the opportunity to maintain these properties as successful profit centres.

In our opinion, there are several populous areas in North America (including Boston, Denver, Pittsburgh, and Seattle/Vancouver) which could support a new theme park. In addition, the experiences of southern California and central Florida point to the ability of some regions of the country to be able to support more than one major theme park.

Rather than pursue expansion of outdoor parks, the second strategy is to focus on developing indoor themed attractions or new products such as waterparks and mini-parks. However, recent experience of indoor themed attractions would indicate that this strategy must be given careful consideration. Many, such as Atlanta's Omni, Old Chicago and, most recently, Autoworld, have experienced severe financial difficulties. Six Flags is struggling with the Baltimore Power Plant. In general, indoor attractions are more expensive on a square foot basis due to the added costs of construction and maintaining the structure. Since they are smaller in area, they are restricted in entertainment content, as well as the number of pedestrians that can circulate. As a consequence, attentive design is critical to economic success.

A relatively new development is themed entertainment centres in shopping malls and festive centres. To a large extent, they were developed as attractions to draw shoppers to support the retail tenants. From early evidence, it is difficult to evaluate their success, but given the present enthusiasm, more developments of this type are expected to appear.

Other areas expected to experience growth are developments based on film studios and amusement/evening dining experiences. As previously mentioned, Disney opened an operational film studio and associated tour attraction at Walt Disney World, covering 100 acres and costing an estimated $800 million. Disney has also announced a 1990 opening for a six-acre nighttime complex, near Lake Buena Vista, consisting of dining, entertainment and shopping facilities. The company has plans to open a number of other similar developments around the country. In

Orlando, MCA is opening a Universal Studio Tour. The project will cover 414 acres, and is scheduled to open to the public in 1990.

In the worldwide market, Europe and Asia are experiencing a boom similar to North America's expansionary period. Disney's announcement for plans to build a park near Paris has been followed by plans for six additional theme parks in Europe, all of which are in various stages of development. Similarly, in the Far East, a number of theme parks are either in the planning stages or under construction. Finally, Australia has become extremely active in the leisure/entertainment industry with three major theme parks.

In summary, those who are in the leisure business, or contemplate entry, have a number of critical areas of assessment. The development trends indicate success for those who do their homework thoroughly and respond effectively to the market demands. Above all, however, we cannot overlook the key ingredient which is well defined in a statement made by Walt Disney: "You can dream, design and create the most magnificent place on Earth, but it takes people to make that dream a reality."

Questions and Answers:

Question:

Could you share with us your views on whether animatronics are going to come along in theme parks, and is anybody really getting into it now? My other question is, could you share with us your opinions about the Baltimore Power Plant?

Mr. Palmer:

The reason that Disney is so successful at it is that they do it all in-house. Their organization, MAPO, does the fabrication of their animatronics. However, animatronics are getting old in the use of robotic characters. We've all seen them. There are certainly appropriate applications of animatronics. But we believe—and we see it happening now—that there is a return to legitimate live entertainment. It may be a little bit more costly, but the interaction of the live actor with the audience puts that human feeling back into it making it a more personal experience.

There are good companies around who do audio animatronic work. Most of them tend to be ba[illegible] southern California, but there are a couple in Europe that have some very good people—one, in particular, in Germany, and another one that's just opened up in France.

If you've been to Baltimore and the Power Plant, operated by Six Flags—it is a stunning environment. But there is absolutely no entertainment value.

Question:

You've talked about theme parks with a single-price admission. Can you relate for us what is expected in food sales and shopping revenues in this experience?

Mr. Palmer:

If you look at the large mega-parks, Disney parks in particular, their total per capita spending (for those of you who have looked at your credit card bill or your wallet at the end of the day) is around $40 per person. That includes the admission and the food per capita, as well as the merchandise per capita. It will vary, obviously, from park to park, but let me quickly break that down for you in broadest terms.

If we look at the admission price at $25, food per capita is probably going to be somewhere around $10 to $15, and the balance would be merchandise, games, and arcades. But food would be the second largest component of a person's expenditure.

The Five Rs of the Future: Resorts, Recreation, Retail and Retirement Residences—Part I

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Synopsis

The discovery of Australia as a tourist destination in the mid 1980s is occurring at a time when resort developers themselves are gearing up to produce a different resort product. The Queensland government recently enacted state legislation to facilitate the process whereby Australia could have a new generation of resort communities in the 1990s that will not only attract domestic and international tourists but will also provide a highly desirable residential community for permanent residents. The design challenge facing Australian developers is to successfully integrate the resort with the community.

This paper identifies this new generation of resort communities that are being planned in Australia today and suggests development criteria that are unique to this type of land use.

Background

Throughout history people have participated in recreation activities in both urban and rural settings. It was perhaps the Romans and Greeks that first developed resort real estate with their spas, villas and outdoor theatres in mountain and seaside locations. Later, in Europe, resort real estate took the form of grand homes of the nobility of France, Germany, Spain and England. A direct outcome of this leisure class was the building of a number of grand hotels in the best climatic and scenic regions such as Lake Lucerne in Switzerland, the Riviera in France, and the Greek

Islands.

The industrial revolution added another dimension to resort real estate; it created a large middle class with access to the newly developed railways and trolley cars, which made these resort areas accessible. There developed around the grand tourist hotels a number of lodges and boarding houses to accommodate the growing middle-class tourist population.

In North America this pattern of development took place more rapidly because of greater wealth and more space. As in Europe, the recreation facilities were developed in attractive climatic regions, in picturesque settings and on natural amenities such as lakes, beaches and hot springs. Around the turn of the century exclusive summer resorts were built near cities such as Newport, Long Island, and Palm Beach. With the advent of the automobile and later airline service, resorts were developed in the sunbelt states of the U.S. such as California, Arizona, Florida, South Carolina, etc., and to a lesser extent in the mountain resorts of Vermont, Utah and Colorado.

These resorts were essentially destinations in themselves with the guest being provided with golf, tennis, swimming and skiing, and the accommodation being provided through hotel and motel units. This was the model of resort development in the United States for the first half of the nineteenth century.

The Australian experience of resort development of this same scale has only occurred over the past five to six years. The Gold Coast, southeast Queensland's largest holiday region, only started to develop international hotels during the past three years. Australia's other resorts on the Barrier Reef and Yalara at Alice Springs are all examples of the hotel recreation package.

The holiday lifestyle offered at these early resorts was soon recognized by developers as an obvious lifestyle attractive for permanent and second home residents. A residential component was soon added to the new resorts. The result has been the development of a new style of resort, the resort community.

Resort communities tend to be large developments like the Florida Boca West project with its four golf courses and 4,600 units on 1,400 acres; and the Sea Pines project in South Carolina on 4,500 acres with 3,000 homes, four golf courses and a 200-room hotel.

The Sanctuary Cove Resort, like the North American resort community, offers a wide range of recreation facilities such as two golf courses, tennis, squash, bowls, a 350-berth marina and swimming, as well as a variety of land uses such as a 350-room hotel, retail shops, restaurants and over 2,000 residential properties and supporting community facilities such as recreation clubs, child care centres and parks. The project is targeted to the high-income earners and is very upscale.

Similar resort communities are being planned in this same region as well as in the Hunter Valley and Lake Macquarie in New South Wales.

What was once a fairly straight forward exercise of designing a hotel and golf course is now becoming a far more complex exercise of, in fact, designing both a community and a resort.

This paper identifies and comments on the new planning, development and management criteria required for this generation of resort community.

Development Criteria

The most significant feature that distinguishes the resort community from other resorts is its permanent residential component and the resulting services needed to support this community.

Planning a resort community involves understanding the commercial facts of the resort investment, as well as the residential requirements of a community. A plan that maximizes the common lifestyle interests of these two groups and minimizes areas of conflict (such as the need for security versus the need for accessibility, the need for privacy and yet the need for publicity) is the design challenge for the developer.

Many factors influence developers when planning resort communities. The following ten criteria are fundamental to ensure a successful integration of the resident with the resort.

Climate

Both historically and today, the most successful resorts and resort communities are located in regions offering the best climate. Whether a summer or winter resort, good climate draws both tourists and residents: good snow conditions draws the winter skier, and warm weather and sunshine draws the golfer and tennis player. Of the over 100 resort communities in North America almost all are located in the sunbelt states of the U.S.

In Australia the first resort community was built in the country's best climatic region in southeast Queensland. New resort communities are being built in each state's most attractive climate and coastal regions.

Access

It is a well known fact that "location, location, location" sells real estate, and the same goes for resort communities. For a resort investor to purchase real estate—

whether a permanent home, a weekender or a holiday home—it must be readily accessible from his principal residence.

The largest residential market in the traditional resort is the second home holiday market. The largest residential market in a resort community is the permanent or year round resident. This market is made up of both retirees and working couples and usually accounts for between 40% to 50% of a resort community's residential population. At Sanctuary Cove, of the first 220 properties sold, the permanent population is 45%, and this is expected to increase to between 50% and 55%.

The retiree portion at Sanctuary Cove is extremely small, less than 10%, despite the fact that there are recreation facilities, a bowls club and a permanently staffed doctor's office. I believe this retirement market was not properly identified or planned for, and as a result has been a lost opportunity for this resort.

In order to achieve a larger percentage of permanent residents, the resort community must be within a ninety-minute daily driving distance of a population centre.

The next residential market is the second home holiday resident whose use is seasonal. This residential market is the largest in the traditional resort but second to the permanent resident in a resort community. The purchaser accepts travel times of up to six hours to use his vacation home but, in many cases, buys with the expectation that this second home could become a retirement home. As resort communities mature, the permanent or retiree population will increase. In Australia's early resorts the second home real-estate buyer was the only real-estate market—this market was essential to financing the capital costs.

Resort communities are also attractive to weekender residents and this third residential market is prepared to tolerate even longer driving times than the permanent resident. In Australia, experience has found that 250 kilometres or a three-hour drive is the maximum disance for successful weekender accommodation. At Sanctuary Cove the weekender was the smallest real-estate market, despite the resort being within a one-hour drive of 1.7 million people.

These differing travel-time constraints of permanent, retiree and weekender users are essentially a method for forecasting a resort community's potential of penetrating the different real-estate markets. With increasing distance from the city centre the percentage of permanent residents becomes less and the holiday home investors becomes greater.

The following comparison of property buyers at Queensland's Sanctuary Cove resort community and the more northern resort at Port Douglas on the Barrier Reef supports the preceding observations regarding accessibility.

	Sanctuary Cove (of the first 230 properties sold)	Port Douglas (of the first 100 properties sold)
Australian Buyers	75%	80%
Queensland	40%	11%
Other States	35%	69%
Offshore Buyers	25%	20%
Japanese/Asian	13%	8%
Others	12%	12%

Forty per cent of the Sanctuary Cove purchasers are from Queensland and use this resort as a permanent residence; 35% are from the rest of Australia and use the resort as a second home for vacation purposes. A small proportion from the other states, approximately 5% have retired to the resort.

At Port Douglas, 69% are second home buyers from other states and 11% are from Queensland. All of the Queensland purchasers are also second-home vacation buyers. It is interesting to note that offshore Japanese and North American purchasers for both properties comprise 20% to 25%.

The resort community also attracts a fourth market, the international hotel visitor. To be successful the resort must be less than a two-hour drive from an airport and serviced by national and international airlines. Resorts that require an airline passenger to travel more than two hours after a flight, run a severe risk of losing this market, losing the return visitor market, and losing the convention and meetings market.

Quality of Resort Product

The quality of each resort, from the hotel to the golf course or from the country club to the residential home, is income sensitive. A five-star hotel is compatible with expensive homes and a quality country club. In North America three-, four-, and five-star resort communities have been developed. However, each positions itself in the market ,and then ensures all its component parts are of the same quality.

Today it is commonplace for the resort developer to establish an image early and to demonstrate this image by building the recreation facilities first.

Like the hotel guest, the future resident of a resort community must be able to see the lifestyle that he is buying into. The resort community resident will not purchase unless these facilities are in place, in the same way that hotel guests will not book without evidence of the hotel's recreation amenities. While this has has very much been the case in Australia's first resort community, in most Australian residential subdivisions of the past, amenities followed the residential development.

The Retirement Opportunity

The retirement market from the resort perspective consists of two groups, the independent retirement market who purchase their retirement homes from existing housing stock in the marketplace, and the retirement home market who buy or rent within a specifically built retirement building project. The first group consists of approximately 20% of the home owner market and the second less than 1%.

Resort areas in the United States such as Palm Springs and Long Beach, California and Phoenix, Arizona attract a large percentage of the independent retirement market from both the U.S. and Canada. Often communities in these regions have twice the normal retirement population.

Historically the retired resident purchases his property as a second home and over time a percentage become permanent residents.

Whether the independent- or retirement-home buyer, a major consideration for both groups is the need to be close to friends and family, and generally the retirees like to remain within their community. This has been the case in Australia for those moving into retirement homes, where studies indicate that of the over-70-year-olds, 80% have moved less than five kilometres to their new homes.

The more recently built retirement homes in Australia provide two components: accommodation and recreation facilities. The recreation facilities usually consist of a swimming pool, a bowling green and indoor meeting areas for group events, exercise classes and dining and entertainment.

The retirement home also provides three levels of accommodation, the independent homes, the serviced lodges providing meals and room service, and the care nursing homes. In Australia, the successful retirement homes are those that are located, like shopping centres, at the centre of residential populations. However, there are some indications that an attractive climate will draw a younger retirement population (60- to 70-year-olds) from beyond the five kilometre radius. In fact, the Gold Coast region draws this age group from the major urban centres throughout Australia. This age group on the Gold Coast represents twice the national average.

Once this age group has made the first move to the resort area, there is likelihood that they will continue to live there and later to move into a retirement home. Studies on the Gold Coast show that this younger retirement-age group will move twenty or thirty kilometres into a retirement home.

There is an opportunity for resort communities to consider this retirement home market. Little to date has been done in understanding the planning requirements as well as the social and recreation requirements of this age group. I believe it is a real-estate market that has yet to be developed. A best guess at this stage would be to suggest the critical mass necessary to create a retirement home market within a resort community would be between 400 and 500 homes. This would be to support the day-to-day operating requirements of the serviced lodge and nursing care home.

Open as a Resort Community

It is essential the resort community opens as a completed facility, i.e., the hotel should be complete with all its recreation amenities and the residential homes with their community facilities. The facilities create the lifestyle and without these the site would be a normal residential subdivision.

The facilities in a typical resort consist of a hotel, retail office, restaurants, golf course, tennis, swimming, recreation centre, club facilities and residential accommodation, parks and an overall security system.

Each component within the resort community is designed to help support the other, i.e., the hotel guest supports the retail, the resort visitor supports the hotel, the resident supports the recreation club, etc. The completion of each component reinforces the quality and value of the whole. A delay in one component creates uncertainty with the next.

Staging can occur but only within each component, i.e., residential areas can be staged and hotel expansion can be staged. This condition, that a resort community opens as a completed facility, requires a massive investment from the developer and clearly distinguishes the resort community developer from the smaller and more traditional resort developers.

Financial Depth

This massive up-front financial commitment to develop a resort community requires the developer to have adequate financial resources not only to build the entire resort, but then to operate it until such time as the parts start to produce revenue. The developers of Australian resort communities have used a variety of financing models. They have accessed pension funds, property trusts, and more recently, have had offshore Japanese participation. The financing models themselves often dictate the style of joint venture, the construction sequence and the management style.

To date in Australia all the resorts and resort communities have been privately financed. There has been no government participation.

Governments have recognized the enormous cash requirements and risks involved and have assisted with new approaches to zoning, subdivision and management. This indeed was the case at Sanctuary Cove and is discussed next.

Government Support

Resort communities have a major impact on the local community not only during construction, but also through ongoing employment, ongoing government tax revenues, and local rate revenues. Initial support by government during the approval and re-zoning process is obvious. An uncommitted council is the surest way to frighten development to a neighbouring state.

Recently Passed Legislation

The Queensland government in Australia recognized the precedent-setting nature of the Sanctuary Cove project and in 1987 introduced special legislation, the Integrated Resort Act, for resort community development. Other states in Australia are contemplating similar legislation. This act addressed three issues which will mould the future form of resort communities in the state.

The first was to remove the town planning approval process from the local government to that of state government for large-scale tourist and residential developments. The state government felt that it was better equipped to judge the planning requirements for the region and state.

The second was to provide a new and more flexible form of land subdivision that could be staged and be more responsive to the marketplace.

The third was to provide a two-level strata title management association that could address the varied interests within the resort, i.e., the resident, the hotel owner, the retail operator, and the golf course and club owner. This umbrella association could levy fees, provide security systems, and contract services on behalf of each owner group. It is the ongoing body responsible for managing the resort community.

Governments need to recognize the high risk nature of these projects and need to allocate adequate resources to assure the efficient processing of applications, building permits, etc. The local government and the Queensland government have assigned special project officers to expedite these major developments. In one instance, a developer paid for an additional government staff salary for a six-month period to assist in the additional work load generated by his project.

A Broad Commercial and Accommodation Base

With investment in the millions of dollars there is always pressure on the developer to broaden the commercial base of the resort community. This is achieved by building a variety of income producing facilities such as hotels, marinas, retail shops, restaurants, recreation clubs, tennis centres, squash facilities and golf courses. Each of these facilities within a resort community is operated as a profit centre. Hence, the overall development has a wide variety of income sources and the development has a better chance of withstanding fluctuations in the economy. But more particularly, each profit centre can be financed separately, and has the capability of being sold as a separate entity, but would still remain part of the overall resort community.

In the same way that there should be a broad commercial base, so too a resort community should have a wide range of housing opportunities, from one bedroom to three bedroom condominiums, from family homes to retirement homes and rental units.

The building program and type of accommodation should respond to the three types of residential user, i.e., the permanent resident, the weekender and the holiday visitor.

The household mix in a resort community is similar to that of most communities, however Australia's Sanctuary Cove Resort was targeted to the high income group and its lifestyle. Targeting the resort to a specific income group and lifestyle has a fundamental impact on all other components of the resort community. It becomes the standard for all the recreation amenities, the style of hotel and shops, the clubs and, in turn, the residential properties.

Management and Service

As hotels must have experienced management to provide quality service, so too the resort community resident expects professional management. In a resort community the service starts at the front security gate, is evidenced in the landscaping, the road maintenance, and is provided in the operations of the golf course and recreation centre. In that respect a resort community is operated similarly to that of a large hotel.

Senior management who undertook the initial hiring and training at Sanctuary Cove were Canadians with resort and hotel experience. In 1989, the Sanctuary Cove Resort employed over 1,100 people.

The gearing up and training of management and staff were undertaken concurrently during the construction period. The staff were not only trained for their individual jobs, but were made familiar with the overall activities of the resort. This made them a more informed employee and also gave them several career opportunities within the resort community.

Resort communities developed under the Integrated Resort Act in Queensland, require the developer to remain in an ongoing management role for a number of years, at least until 70% of the residential properties are sold. At Sanctuary Cove, this is expected to be seven to ten years. This provides the needed management stability during the early years of development, and it also allows the developer to control the quality of construction during this period.

A Five-Year Plan

Experience has shown that major projects taking longer than five years from planning to opening run an extremely high risk of losing momentum and failing. This failure is brought about by many factors, not the least of which is the high cost of finance. In addition, over a five-year period government programs change, governments themselves change, senior staff change, and generally there is an inability to keep the project on the front pages from a marketing perspective.

A project can obviously continue building out beyond a five-year period but if it has not reached a critical mass and is not operating within that period, it runs a high risk of not being successfully completed.

Conclusion

The Australian experience in developing resorts for the international market has occurred over the past five to seven years. Previously the resorts catered entirely to the domestic market and although this is still by far the largest user, resorts are now gearing up to provide a higher level of service for the international visitor.

The Australian resorts can generally be categorized into two groups, the first being the remote properties generally located in a unique environment such as the Barrier Reef and Ayres Rock, and the second, those resorts at the more traditional vacation spots such as the Gold Coast beaches and the Hunter Valley wine country.

Due to their remoteness, the first category of resorts have relied upon the second-home-property real-estate market to make them viable, and these resorts will not likely have any permanent home owners for many years to come.

The second category of resort, although found in the more traditional holiday areas, also happen to be closer to the major urban centres of Brisbane and Sydney. This second category of resort development, the resort community, has the greatest opportunity for growth for both tourist, residential and retirement markets.

These resorts have been described as resort communities and the paper has identified some ten criteria that need consideration when planning, developing, and managing these projects.

The Five Rs of the Future: Resorts, Recreation, Retail and Retirement Residences—

Part II

Ian Thomas
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Do you know in B.C. we have the demonstrated capability of creating the best resort projects in the world?

While this may sound an idle boast, the proof is in the pudding as we give you a present and living example of one of the world's newest, largest and most exciting resort projects. The project was largely conceived, totally planned and developed out of Vancouver.

I am referring to Australia's incredibly successful Sanctuary Cove project created by twenty-one different Vancouver firms.

Why Vancouver?

Five years ago, an Australian entrepreneur was looking for the world's best design team to create the world's best resort project. This entrepreneur knew of me and flew to Vancouver to interview me. When he described what he was proposing, being the typical consultant (where nothing is new, let alone unique) I said it sounded very similar to the Whistler Town Centre—a project also conceived and planned in a very short time span. I mentioned my association with this project and specifically my relationship with Neil Griggs, who was charged with making it happen.

Together we helicoptered to Whistler on a beautiful World Cup day, and Whistler was magic. The entrepreneur could not get over the "joi de vivre," and the international eclecticism. When we helicoptered back to Granville Island, the developer fell in love with that tourist attraction.

As a result of this experience, both Whistler's village and Granville Island are totally embodied in the Sanctuary Cove scheme.

While my colleague, Neil Griggs, has described the planning process that made Sanctuary Cove such a success, I should also like to comment on the key features of this process:

- The project from the outset was planned to be the best resort project in the world: a large scale, totally integrated facility of a multi-use nature. This necessitated studying and visiting the leading resorts in the world so as to prepare checklists of what must be incorporated if success were to be attained and the pitfalls to be avoided.
- The project from the outset was always planned to be a totally integrated, self-contained resort. The whole idea was that people could come to the project for the duration of their stay and never have to leave its boundaries if they did not choose.
- The project was to be planned where not one element necessarily predominated.
- Whilst the larger element of the project was the residential, and that was where all the profit lay, residential alone was not sufficient to create the image and identity that the project needed—otherwise, it was merely a large subdivision in search of an identity.
- Most major projects tend to be anchored by one single element and in this case, it was the hotel. The bigger the hotel and the more upscale it was, the more likelihood of obtaining a premium on the residual lands for residential development.
- The project was planned from a total synergistic standpoint. When one considers that it was built in the middle of nowhere and yet it contains a shopping village, for example, you can see that it had little outside traffic to draw on and that traffic must be derived from within the project in addition to its associated gravitational pull—day trippers, boat tours, and sightseers.
- The project totally depended on synergy. The onsite residents would use the hotel, the restaurants, the recreation facilities, golf courses and the village; day trippers and visitors would use the golf course, tennis campus, restaurants and village; hotel guests would be attracted to the lawn bowling, tennis, golf, marina, restaurants and village; etc. So it was a classic case of taking a captive market and determining what the needs were whilst those people were on site, and creating a development to satisfy those needs. Rounding out the appeal, so that visitation becomes multi-purposed in nature, became pivotal.
- The project's infrastructure for the recreation amenities was planned up front so that people from the outset knew exactly what they were buying and that

there were to be no promises. Most projects of a development- resort nature fail because the developer cannot deliver, therefore prospective purchasers want to see the bricks and mortar before buying. Promises simply are not good enough.

- The project created an awareness campaign right from the start. This included a bi-monthly newspaper-style full colour newsletter; a very heavy advertising awareness campaign; publicity seeking events, with ground breaking and ribbon cutting ceremonies, etc.
- The project required phenomenal government assistance and endorsement.
- The project took a full year to plan. Each use was totally rationalized before any attempt was made to plot its location. Given this total commitment to detailed planning, development then proceeded. What is extremely re-assuring is how little it had deviated from the original plan three years later. Furthermore, it became far easier to sell the project when literally every square foot was rationalized, planned and related to other components.

Opportunities in B.C.

I think we have unlimited potential to develop integrated multi-purpose resort communities in British Columbia due to the following:

- Growth in two income households.
- An aging population which is getting wealthier.
- Devaluation of the Canadian dollar.
- A growing influx of international visitors.
- A growing influx of foreign investment.
- The talent and resources to design and develop such communities.

One of the real recreation growth segments is golf. It is estimated that the U.S. needs to open a new course every day to the year 2000 to satisfy current demand. This segment is growing 5% to 7% per annum. In the U.S., golfers totalled 17.5 million in 1985 and by 1987 had grown to 22 million.

One idea that exploits golf mania, which seems appropriate for B.C., has been implemented at the new Chardonnay Club in northern California. Investors purchased $30,000 shares granting them lifetime golf privileges. The course is public; non-members pay $50 per round. Founding members pay no fee and get preferred tee-off time.

Finally, a growing segment of the second-home market is fractional interest properties. As distinct from time-share, one-quarter-share units are sold and have become very popular.

The future lies with totally integrated, large scale developments where people can satisfy all their pursuits of leisure, recreation (golf, tennis, horseback riding, ranching, swimming and skiing) entertainment, shopping, eating and drinking. People don't want single-purpose projects but rather multi-purpose projects synergistically planned to appear as a single entity.

These large-scale projects will stand the test of time because they are not dependent on a single source of business. Whistler already has achieved that; Panorama is close, if not already there; Fairmont works; 108-Mile Ranch is close; Harrison, with its new owners, will achieve these objectives. However, more are needed in Vancouver, Vancouver Island, Kelowna, Penticton and other tourist places.

Summary

Sanctuary Cove is a classic case of an individual's simple vision to create the best resort in the world. By selling that vision, buyers were buying a lifestyle dream.

The project required a single individual at the top who literally had tunnel vision to see his objective totally realized. Dreams and ideas are one thing but materializing them is another. That single individual must be incredibly tenacious and have a burning ambition to succeed in the face of incalculable odds.

B.C. has the talent and resources to make tourism and resort development its number one industry. The opportunities remain brighter and stronger than ever before for those prepared to think big and do their homework.

Questions and Answers:

Question:

I am interested in how the developer parlayed $7 million into a $300 million investment. Were there any government guarantees, perhaps to the hotel, or any single source investors for some of the larger portions of the project?

Mr. Griggs:

No, there weren't. There was, however, an outstanding $5 million government loan but no guarantees. It was purely done through the private sector.

Follow-up Question:

Did any of the major investors within the project end up in a substantial equity position along with the prime developer?

Mr. Griggs:

No, it was primarily done by a single developer with traditional bank financing. During the first two years he handled the project himself. After this period, he was refinanced and a joint venture partner was brought in.

Question:

Were the ranges for residential purchase wide or fairly narrow?

Mr. Griggs:

While high on the income scale, we offered a wide range of product, from land blocks, townhouses, to apartment units. It was right at the top end of the scale.

Question:

I have three questions. First, do you think that year-round sun has been crucial to the success of this type of development? Second, do you believe that the proximity to a fairly major city has made the Cove more attractive to the retired clientele? And third, where do the employees live?

Mr. Griggs:

The third question is the easiest one to answer. The employees primarily come from the regions surrounding the Cove. We are only an hour from Brisbane. The proximity to a major urban area is not a crucial factor for the retiree who is buying for the first time. However, when he or she is seeking further services such as care facilities, etc., the proximity to an urban center is a condition. So if you want to keep a good percentage of permanent residences, you must remember that distance is an important factor for the retired clientele.

As far as climate is concerned—Sanctuary Cove's climate is the most ideal. It's my judgment that the climate has to be the best in that region, in order for it to be successful.

Mr. Thomas:

Whistler, Fairmont and Panorama have demonstrated how four-season development really works. More and more multi-use projects are being developed in four-season resort areas and have proven to be succesfull.

Regarding your question about employees, the Australian goverment has provided assistance to build residential infrastructures for employees so they don't have the problems of finding accomodation at exorbitant prices.

Innovative Financing: The U.K. Experience

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The English Tourist Board's five year development strategy, A Vision for England, launched in 1987, has a target of generating between £3 to £4 billion of investment and 250,000 new full time jobs by the early 1990s. The strategy has now completed its second year and targets to date have been comfortably exceeded.

The tourism industry is big business in England. As an employer and wealth creator, it currently has few equals, and is one of the U.K.'s biggest growth industries. Earning some £18 billion a year, tourism contributes around 5% of the United Kingdom's GNP, and is fifth in the world tourist earnings league table.

The development of tourism at the government level has been the responsibility of the Development Division of the English Tourist Board (ETB) under Section Four of the original 1969 act of parliament which brought the Tourist Boards into being. The ETB, over the last two decades and through a variety of programs and initiatives, has sought to inspire creative and innovative development as well as improve the quality of tourist facilities generally. Funding by government grants or loans has always worked on the principle that assistance should only be given where financial need is proven, and in the case of larger projects, where assistance has made the crucial difference in quality and innovation of design, or in bringing the development forward in time.

Our task at the ETB is to stimulate investment in projects that will improve England's competitive edge in the domestic and international marketplace. Tourism internationally is going through a period of rapid growth and change. Increasing competition has fuelled demand for holidays abroad and raised domestic holiday makers' expectations. Although there are potentially massive areas of opportunity to be exploited, too much of the U.K.'s tourism "product" still falls far short of international standards.

It is, however, important to appreciate that the structure of tourism in England is characterized by a few major publicly quoted companies and a mass of relatively small- and medium-sized businesses. The major hotel, leisure and brewery companies quoted on the London Stock Exchange are performing extremely well, and most are capable of financing their investment programs from the internal resources of their respective businesses. However, their dominance in some parts of the market place, and relatively conservative attitudes toward investment can present us with some difficulties in converting our product development intentions into development on the ground.

Having said this, the major groups command strong credibility with the stock market and can normally finance their acquisition programs by floating equity on the London Stock Exchange. Furthermore, as I have already stated, their expansion programs can usually be financed, either from internal cash flow, or by raising debt through the major banks and institutions in the City of London.

In contrast, raising capital to finance new developments for the 150,000 small businesses in tourism is much more difficult. Equity financing for the small business sector is still underdeveloped and tends to rely on the personal resources of the entrepreneur and his immediate family and contacts.

The City's involvement in providing equity capital for management buy-outs, new ventures and business expansion, is still relatively low in tourism; this is largely because England's venture capital industry is still in its infancy compared with other countries like America, and money from pension funds and insurance companies is not normally available for the small- or medium-sized tourism operator.

Although a theoretical source of funding for our most entrepreneurial companies is the institutional property market, financing is extremely difficult to find and often very expensive. As a consequence, developers have difficulty in pre-funding projects with a high tourism and leisure content. This often means that the tourism ingredient of mixed development schemes is relegated to a relatively minor and unambitious, functional role. Given this situation, it is inevitable that the public sector continues to play an important pump-priming and catalytic role in tourism and leisure development in England.

The bulk of tourism development proposals are still regarded with suspicion, either for quite objective and rational reasons, or simply because the investment analysts are emotionally uncommitted (the term "candy floss" industry still unfortunately prevails to a large extent), or professionally unwilling to absorb the specialist aspects of the development or the industry. This attitude holds back tourism development in the U.K. and forces the developer to arrange a relatively highly geared finance package and to rely on government incentives of one form or another.

The most important source of government assistance for tourism development in England is the Tourism Development Grants Scheme. Its importance to the industry is vital, not only for the small- and medium-sized business but also in stimulating strategic, pace-setting projects from the more creative and innovative developers (whether home-based or foreign) in our industry.

In the development field, the English Tourist Board's role is that of a development agency, acting as a bridge between the commercial, financial, local authority and government interests. It is our job to take a high profile on good examples of tourism development and encourage the investment and banking community and local authorities to adopt a positive view toward tourism.

ETB Development has a multi-disciplinary team from many backgrounds: banking, planning, consultancy, hotel management and economic development. We have built up an extensive data base of around 4,000 assisted projects over last two decades and this expertise has meant that the board has been able not only to provide and promote opportunities, but also to carry out detailed project appraisals and arrange finance for a wide range of tourism projects, from the relatively small business development to multi-million pound schemes.

The board has been very selective in its approach, and in many instances financial assistance has only been granted when a comprehensive planning, site-finding, consulting and appraisal process has already been undertaken. The grants scheme has had a vital strategic role in levering private sector finance and bridging the equity gap for the tourism industry.

In this context, examples of ETB's role in influencing the implementation of a few key developments in recent years will illustrate the points that have been made.

York, one of England's major cities with 3 million annual visitors is an undoubted success story. However, for many years, like many of the country's historic cities, it was perceived purely as a one-day visit attraction. Then, in the early 1980s, the Jorvik Viking Museum project was conceived. An archaeological dig had unearthed some important artifacts and this "state of the art" project began to take shape. I use this term, because in those years, this sort of attraction was unique in England, with its "ride back in time" theme and its mixture of sounds, sights and smells from the Viking era. It had no parallels in England, where the majority of cultural attractions were largely passive, with static visitor numbers. The developers were, however, finding difficulty in arranging private sector finance, largely because their business plan only estimated visitor numbers of around 400,000, thereby reducing viability of a £3 million development.

The English Tourist Board, which suggested that this innovative project could have the potential of attracting up to 800,000 visitors, was instrumental in securing the financial package with Rothschilds and also put in a grant of £250,000 to complete the financial package. In the first year of operation, the attraction opened with around 800,000 visitors. The project would not have proceeded but for our intervention and is now one of the most successful developments in the country and has undoubtedly been the inspiration behind many new innovative attractions.

Our board commissioned an economic study into tourism projects like the Jorvik Centre in 1986, and this study indicated that magnetic attractions of this nature generated additional spending in the region of £7 for every £1 spent at that particular attraction. Jorvik has helped to contribute to York's success story, because projects which are destinations in their own right are powerful stimulants to development, by raising the promotional profile of an area. Certainly, the growth in the supply and support industries in the service sector, such as retailing and banking, is testimony to this—rental yields for some tenants doubling since the opening in 1984 and 1986. This interplay between shopping and leisure can create a highly successful trading environment by reducing seasonal influences, dispersing tourists, and providing a diverse range of family interests over a period of time.

Another example of the ETB's intervention in securing an innovative tourism and leisure development was the first holiday village in England to be built by the Dutch company, Center Parcs. As long ago as 1980, our own research had indicated that with increasing leisure time and disposable income, people were inclined to take second holidays, short breaks, or weekend packages. In fact, the short break market was the greatest growth area in domestic tourism, given the dormant state of the traditional two week seaside holiday.

As I have already stated, the role of the ETB is not merely to provide pump priming financial assistance, but also to introduce new concepts, new product development and to exploit areas of opportunity and growth. We discovered that the best exponent of all year round tourism in Northern Europe was this Dutch company, who had developed the concept around a huge covered tropical pool complex, where the temperature is 84°F (28°C) all the year round, capable of holding 1,500 to 2,000 people comfortably, with a diverse range of indoor and outdoor sports and eating facilities. Costing in excess of £35 million for this scale of leisure development, the self-catering bungalows needed to be of sufficient number and quality to generate revenue all the year round. That necessitated between 400 and 600 units, each unit providing accommodation for up to a family of six. The ETB was very excited by this revolutionary concept and, with the company experiencing occupancy levels in excess of 90% in Holland and Germany, was convinced that the product would work in England.

Our approaches to the English leaders in the self-catering industry were, however, met with skepticism. It should be remembered that English holiday camps have historically operated on the coast, and this seasonality has ensured that the majority have only remained open from Easter to September. Consequently, there has been very little investment in this market sector. The English operators questioned the wisdom of building such large complexes. They doubted the viability of such schemes, and they asserted that the concept would never work in England. The difference between the English camps and the Center Parc villages is that the latter are always built into mature forest areas, away from the coast and the seasonality problems that are then posed, and there is never any organized entertainment.

As we failed dismally to interest the U.K. operators, the ETB then engaged in a long exercise to woo the Dutch to England. We negotiated with the local authorities to find suitable sites, and with the Forestry Commission, who owned the land, to release this to a commercial developer for a realistic price. Eventually all were persuaded that a site of 400 acres, deep in Sherwood Forest should be released. However, there was still no tangible support from the government. The Dutch company had been used to obtain grant assistance of around £1.5 million for their previous holiday villages in Holland and Belgium, had traditionally always been allowed to purchase the land very inexpensively, and had been granted free drainage and power supply.

The Dutch board were split between investing in England and Germany. The ETB undertook a comprehensive business appraisal of the project, compared the returns that could be expected here with the Continent, and eventually recommended that to secure this first holiday village (and the promise of five more in England) a grant of £1.5 million was justified. Our paper recommending this level of assistance (around 20% of our total 1986 budget), eventually had to be submitted to the Treasury and Chancellor of the Exchequer for their approval. I am pleased to note that the village in Sherwood Forest, a foreign investment secured for England through our introduction, is now the most successful of all their developments in Europe. The development created around 400 full time jobs, and our economists have estimated that the associated benefits and linkages with other businesses and suppliers is so great that around 2,000 direct and indirect jobs will be created by this one development.

I mentioned earlier the skeptical response of the U.K. operators, who questioned the wisdom of such an operation. In the same year as Center Parcs commenced building (and it must be mentioned that this £35 million development in 400 acres of forest land, complete with tropical dome, 600 bungalows, and man made lake, was completed in fifteen months), one of the U.K.'s leading self-catering operations announced a massive £100 million development program and three or four of the other major players also announced much needed investment programs. Belatedly, the U.K. operators have realized they need to maintain market share and there is no doubt that without the competitive spur from such inward investment, they would have continued to lose this to foreign competition.

A major tax-based scheme which has had implications for tourism investment is the Business Expansion Scheme (BES). This has nothing to do with the English Tourist Board, but is a government incentive whereby a taxpayer can offset investment in qualifying companies against his income tax liability—up to a maximum of £40,000 in any one year.

In England, a high tax payer used to have to pay up to 60% of his top earnings in income tax and, provided the investor maintained his investment in the company for a minimum of five years, he could escape all income tax liability on the investment. As hotels are relatively secure, property-backed investments (especially in the major cities), this scheme had some appeal to the hotel sector. However, this principle does not necessarily apply if it is to be located away from London, Bath or York.

In 1985 it was proposed to establish a seventy-two-bedroom Country House hotel by converting Stapleford Park, which is a Grade I listed building, located near Melton Mowbray in Leicestershire. The estate comprised some fifty-five acres of parkland, the main house, stable block and five cottages.

The original funding was to be raised through a Business Expansion Scheme issue of £6 million. The man behind this scheme was Bob Payton, a successful London restauranteur and an American by birth. He had already established the "My Kinda Town" Group of restaurants, including the Chicago Pizza Pie Factory and others, which had operations in London and other European cities. Despite this, the BES issue failed to raise the required amount because of the apparent perceived risk of establishing a luxury hotel operation in a rural location.

At this point, the English Tourist Board took an active role in pursuing alternative sources of funding through its contacts with city banks and financial institutions. Allied to this, we started to assess whether we should also provide funding from our own sources. Bob Payton was also making strenuous efforts to raise equity through his contacts in the United States and Australia.

It became clear at an early stage of these negotiations that despite his established track record, the ETB needed to provide an endorsement. The United States and Australian discussions proved fruitful, and significant "in principle" offers were made. Together with a modified project which reduced the costs to some £4 million, the project funding was almost in place by 1986. However, the devaluation of the Australian dollar then came into play. The resulting delay caused the withdrawal of a leading U.S. backer and the project was once again in suspension.

The group already had an involvement with venture capitalists who normally would not have considered the Stapleford project because the projected returns were not within the parameters they required, however, it was considered worth approaching them. Lengthy negotiations took place and the ultimate outcome was that, providing the ETB was able to contribute soft funding to the extent of approximately £300,000 in the form of a repayable grant, then a syndicate would provide a significant level of equity. I am pleased to say that the hotel has been opened and our latest information indicates that it is trading above the projection put forward and further expansion will be taking place shortly.

This is an example of our project funding role where, through our knowledge of the industry and our significant number of contacts with financial institutions, we were able to assist in the implementation of what we saw as a strategic project, but one which was perceived as being high risk by the financial sector, with little scope for alternative uses and therefore could not be viewed as a property transaction.

Slaley Hall is a large country house set in an estate of some 340 acres located about twenty miles from Newcastle upon Tyne in northeast England. It was purchased in 1985 by two businessmen who had a keen interest in golf, but who recognized that there was an apparent lack of high quality accommodation in the area, especially where a championship quality golf course could be combined. The overall concept was to provide an exclusive resort complex, linked to a country house hotel-style operation.

The overall cost was estimated to be approximately £7.5 million which included the construction of the golf course to PGA International Tournament standards, and other leisure facilities. The principals injected equity into the operation to purchase the estate and make a contribution toward golf course construction, which was further funded by funds received from the sell-off of parts of the overall estate. This realized approximately £1 million.

The English Tourist Board was requested to investigate potential sources of funding to take the project through to completion. It was recognized at this stage that the project would be regarded as high risk by the financial community because of its location in the northeast of England, and because the concept was new in this country. We therefore initially identified sources of finance which would provide funding on a "soft" basis which would improve the overall returns for normal commercial investors.

Because of its location, we were able to obtain funding from the European Investment Bank, the European Steel and Coal Community, and other public authorities. It was then clear that the surest way to enable this project to go ahead was to obtain a development spin-off through a small high quality residential development. This was accepted by the local authority, but later ran into difficulties at a higher level.

Some thirty-five institutions were approached to obtain equity funding. A very lukewarm response was obtained, with one exception. In this case, the funding could be provided, but the terms were particularly onerous. A leading U.K. bank was also persuaded to provide medium-term debt. The resulting gap in the funding equation was then the subject of applications to both the ETB and the Rural Development Commission. We recognized the importance of a "flagship project" such as this, and agreed to provide approximately £850,000.

Unfortunately, at this stage, the planning difficulties mentioned earlier came into play and we lost the opportunity to cross-subsidize the project. This has caused a delay of approximately twelve months in the project timetable. However, in some respects, this has been a positive period of time. The funding has been refined because the project has actually received a lot of media attention, causing a stronger picture to emerge. The economy of the northeast has improved, and finally a major hotel operator of international status, Sheraton, has agreed to come on board.

At this precise moment, we are awaiting a decision from one further funding source which will complete the equation. The project has been refined somewhat from the original plan and further development opportunities have also been identified, which will considerably enhance the overall viability of the project and the impact it will have in the market place. Our involvement has been over three years in duration, but the final outcome should be worthwhile, and the northeast should benefit considerably from this project.

I mentioned whilst talking about Bob Payton's Stapleford Park, that we had granted the development assistance in the form of a repayable grant. Since 1986, the majority of our major projects, if assisted, have been awarded in this form. This should not be confused with a loan, because with loans, repayment is mandatory.

The majority of our projects require sustenance in the early years before they are mature or require an "endorsement" from the statutory board for tourism to lever further finances from their lending institutions. Whilst recognizing that such projects require seed finance from the public purse, we also have realized that if the project performs as well as forecast, or improves on this, there is usually sufficient to enable repayment of the grant in four or five equal, annual tranches, without impeding future development programs. We have therefore estimated that around £18 million is due to be repaid within the next ten years from projects assisted by the board in the last three years. It is unfortunate that this fairly significant sum is repaid to H.M. Treasury rather than the English Tourist Board, so the incentive for debt collection may not be so great.

In the context of A Vision for England, there is little evidence of pioneering on visionary greenfield developments by the large U.K. companies, who by and large, prefer growth by acquisition. Innovation and new development, therefore, are not always a result of market forces. Financial institutions are still "risk averse" when considering proposals where there is no demonstrable track record.

English Tourist Board Development, with its relationship with the public and private sectors, its project financing and, where necessary, its grant funding, has demonstrated to these institutions that the ETB is convinced of the project's viability and is able to provide tangible support. Furthermore, most tourist projects cannot be classified in the high return or prime investment category. Their locational and management characteristics take them outside the field of property institutions, whilst in most cases, the returns available do not meet the criteria offered by the venture capital industry.

Overseas financial institutions are far more positive toward leisure investment, where leisure is often recognized as the core ingredient in mixed development schemes and perceived positively to add value.

The tourism industry therefore needs management and regulation, co-ordination and promotion. The fragmented nature and polarized structure of the industry, falling as it does between proprietorial businesses and dominant U.K. groups, is in itself an argument for a continuing pivotal role of the English Tourist Board, the bridge between the public, private and voluntary sectors.

Questions and Answers

Question:

My question relates to the destination developments that you've been involved in. Does your investment policy focus on that large scale of development that will have those positive effects on businesses around it, or is your policy more widespread to include small-scale projects?

Mr. Nair:

Before our grant scheme was suspended, we had in fact, split the thing into two. We had a Small Business Fund, for projects which were costing less than £100,000. Effectively those were straight, direct grants, not repayable, almost like a flat-rate grant for around 20% to help the small businessman put a swimming pool or private bathrooms into his hotel, for example. (And bearing in mind the large coastline and the fact that a lot of small family businesses hadn't been updated for so long, the private bathroom was something which was not very evident.)

So we had two schemes. The small business scheme for less than £100,000, and what we used to call the Innovation Fund, for projects costing more than £100,000. The majority of those are on a repayable basis and designed basically to be a kick start, but to be repaid once they're mature.

Question:

What is the percentage of foreign tourists outside London?

Mr. Nair:

I don't know of the percentage; obviously the major historical cities (London, Bath, York, Stratford) have most of the overseas tourists. With 1986 (Libya and Chernobyl) and the state of the dollar at present, there has been a downturn in the U.S. market, but we're experiencing new areas of growth. The Japanese, the Middle Eastern, the European, even the Australian market in January, February, and March, congregates straight to York.

Even ten years ago people were taking three weeks to do Europe, and two weeks of that might have been spent in the U.K. What's happening now is that they're staying on the established routes and not perhaps getting round to some of the more marginal areas.

Question:

What criteria do you use to select the receiver of a grant?

Mr. Nair:

Well, the grant system was available to everyone, and since 1982 it's been spread around the whole country. With our own expertise of around 4,000 tourism projects which have been assisted, we've carried out a financial appraisal, we've made sure that the marketing is OK,and we've made sure that the management ability is there as well. In fact, we have a team of project investigators who undertake visits to those prospective projects on the ground. They then have to report back to our board and the board are the final arbiters: "Yes," "No," "A bit more," or "A bit less." Obviously there is a certain amount of displacement when one particular project might get assisted before another.

We had this happen very recently in Nottingham where, somewhat surprisingly, we didn't have a Robin Hood attraction. And lo and behold, early this year, we had two just about getting off the ground at the same time. So how do we choose which is which? They're both roughly the same cost; they both required roughly the same level of government assistance to get off the ground. We had to take it on a first-come, first-served basis. And that's the way we've done it.

Follow-up Question:

Could you explain how you distributed the money so that there would be enough to go around?

Mr. Nair:

All we had the last year for the small business community was £3 million to go around the whole country. That's not a lot of money, but to put in a private bathroom can be quite cheap. If we were putting in 20%, which is normally the cost to a small business operation, the balance was usually forthcoming. We 600 assisted projects in the country last year. Seventy-five per cent of those 600 projects were to small businesses.

Canada's Role as Bridge between East and West

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This is a pretty pretentious subject, about Canada being a bridge between East and West. It conjures up some of the realities, and myths, of this great nation's post-war euphoria when Lester Pearson acted with such confidence on the world's stage. At the turn of this decade I had the honour to occupy the office at Canada House in London which Mr. Pearson had once adorned. British politicians still active like James Callaghan would reminisce there about the heyday of Canadian influence in the fifties. In that heyday, I was myself in the British Army, concerned about plans for the defence of Northern Europe under the then embryonic North Atlantic Treaty Organization, and I remember well what was known as the ABC formula. It meant that standardization of NATO terms and procedures had to conform to agreements orchestrated by an American-British-Canadian committee. All the other nations followed suit. This was pretty heady stuff, and illustrated clearly that Canada had the stature to achieve consensus between the other two, whose representatives squabbled interminably; myself included.

The notion that Canada was indeed a bridge, reflecting the best of British tradition with the freedom and excitement of the frontier, stayed with us long enough to encourage my emigration, a voyage of exploration I commenced thirty-five years ago and one which, with delight and then devotion, has never ceased.

The bridge has been renovated, perhaps even rebuilt, since then. It is no longer military prowess, or diplomatic nicety, that provides the foundation. And sadly, today, we are seeing a weakening of some of the parapets that were viewed and applauded as distinctively Canadian in the last quarter century. We can no longer afford, it would seem, to be as magnanimous in our reaching out to the disadvantaged of the world as we have been; or should be. In our own comfortable and rather carefree way, we have become a debtor nation, and whatever the trial and tribulation we must now face internally, the external consequences are that our stature and our capacity to bridge the East and West, or more accurately the north and south, are diminished.

This is not to say that we are suddenly without influence. But we should be very careful about preserving that stature, and the wonderful essence of this nation, in the years immediately ahead. We are in the process of lessening our capability to guard our own shores, while inexplicably retaining a garrison in an affluent European community that—as economic, social and political trends will continue to demonstrate—is less and less knowledgeable, and less concerned, about Canada as an honest broker, or as a destination, or as a distinctive society.

And as we depend more and more on the United States for our economic well-being, and as we integrate our defensive arrangements more fully as a junior military partner of the same nation, then the perception elsewhere of Canada as a unique country becomes more blurred, and the parapets on our bridge weaken. I go back again ten years to my tenure in London, where I had responsibility inter alia for Canadian propaganda in Britain. The greatest frustration I had was that—as the remembrances of war and the ties of family faded—we were forever being lumped in with the Americans in the personal and public perceptions of the British. The Australians had no such problem, being far enough away. They also had the advantage of playing the same games as the British, like rugger and cricket. I envied the Australians their isolation and the high profile they had in Britain, and I recalled John Kenneth Galbraith's advice that the only way for Canada to get away from the influence of the American economy would be to float our half of the continent off somewhere else.

Canada needs to foster the bridging role, not only because there is still much that is useful to do but also because it is very clearly in our self-interest to be seen and accepted as different from the Americans. Otherwise the course of time may erode the bridge itself, and the Canadian nation with it.

For twenty-five years I have had the most satisfying sort of public service available to man or woman. I have been permitted to represent my adopted land abroad, to orchestrate its information, cultural and academic programs in other countries and to aid its trade promotion activities in both industrialized and developing countries. I have depended a great deal on young Canadians in these endeavours, because they are the ones who staff our exhibits, and perform, and interpret, and travel light. I have known thousands of them, all too fleetingly. They have been a joy to me, without exception, for they have been the proudest Canadians of all; certainly because their devotion was unreserved, but also because their experience elsewhere invariably resulted in confirmation that being Canadian was special—a sense of quiet assurance, without a trace of arrogance. These are the builders of the Canadian bridge, now and in the future.

What we have built, or acquired if we came from somewhere else, is an oasis of some serenity in a turbulent and increasingly changeable world. Just as the crossroads of trade caravans of a thousand years ago became centres of civilization, so it is possible for Canada, and in particular British Columbia, to become a preferred meeting place for civilized people seeking solutions to the issues that confront an increasingly complex global community.

That is why it was entirely appropriate that Vancouver should have hosted the 1986

World Exposition, and in the process ensured that developing countries could, in a practical and honourable way, have pavilions alongside industrialized nations and not feel out-classed. That is why it is important to create an aerospace exhibition of world stature at Abbotsford, starting this August. That is why we should support the endeavour to create the Whistler Centre for Business and the Arts, with its emphasis on our Asia-Pacific community. I know there are other such initiatives and I applaud all of them but these are ones I know something about myself. And there is another one, which still gives me considerable satisfaction because it began, as others have, at Expo 86 and had the same sort of concern to be a bridge between East and West, and north and south.

This was the first global conference on tourism, A Vital Force for Peace, held here from October 23 to 27 last year. From unbelievably insecure financial beginnings, but driven by the dogged determination of Lou d'Amore, it became a gathering of such purpose that it united hard-nosed businessmen and peace activists. Some degree of that success could be attributed to the sense of security and well-being that surrounds us here in Vancouver every day, and which is impressive, even startling, to delegates from other parts of the world.

Out of that conference came agreement to hold similar events in other locations, like Cairo and Beijing. It may be decades before the conference returns to Vancouver, but it started here, and future congregations will be guided by the Columbia charter which was drafted here on October 27, 1988. The charter has many facets but it is rooted in the hope "that tourism will nurture conditions through which people can co-exist, share their beliefs, appreciate each other's cultures and develop friendships." And, it derives its purpose from the belief "that government, academic and private-sector leaders have identified and supported the potential of tourism as an influencing force for global peace through respect for human dignity, cultural diversity and the natural environment which supports all life." If we accept that Vancouver, British Columbia and Canada constitute a desirable global meeting place, it behooves the tourist industry to seek out and support initiatives that diversify the reasons why people should come here. And, in a very practical way, it behooves all of us to be reminded, again and again, that the widest path that leads to our Canadian bridge comes now from Asia. It is a path we should build and repair with the utmost diligence, because it increases our own vitality, enhances our own economy and ensures our own distinctiveness.

Canada has been, from the beginning, the creation of people who came from elsewhere to seek a better life. Tens of thousands of years ago the first Canadians came from Asia. For the last few hundred years they came from Europe and in the best imperial tradition Canada's destiny was determined by its trans-Atlantic ties, in peace and in war. It is probably still the case that a considerable majority of Canadians instinctively look east when they are not looking south. Indeed we discriminated politically, and acted personally, against Asian immigrants until very recent post-war times. And now we face an unprecedented phenomenon, the international prospective ascendency of the Asia-Pacific region from whence those immigrants have come.

This is a region where three-quarters of the population of the world will live thirty years from now, where five of the fifteen top exporting nations of the world already are demonstrating a rate of growth higher than any of the older industrialized countries, where the yen will replace the dollar in international trading, and where the possibility of an Asian economic community is no longer greeted with disbelief in North America. In all this Canada is not merely a bridge, but a destination and a participant. East is meeting West, with consequences that are not yet clear. Some indicators are, however, visible enough.

Canada has, right now, more economic interests in Asia than any Western country other than the United States. Our Asia-Pacific trade exceeds our trade with Europe. We have more trade with Japan than with Britain, France and West Germany combined. We give 40% of our global aid to the developing countries of Asia and the Pacific and the major source of new Canadians, about 50% of the total, is from the same region. We are increasing, with a rapidity that has resulted in some entrenched unease, the proportion of our population that will influence the next several hundred years of Canadian society and culture in the same way that European immigration influenced that society in the last few hundred years.

The economic consequences of the transition from the age of the Atlantic to the era of the Pacific will depend on how well Canadians, whatever their origin, adapt to doing business with a new world where traditional Asian values—those of family solidarity, patience in awaiting long-term gain, competitiveness and sheer hard work—will be ever-present; where echelons of nations are advancing by rapid stages on the leader, Japan. The infusion of immigrants from these very countries may be our best collective insurance that we can prosper in the years ahead.

In the industry of tourism, it seems to me that we would have some difficulty not to prosper. I say this with some diffidence, being without the hindsight that Tourism 2000 would have provided, however, the numbers are so astronomical that it would seem reasonable to anticipate a share of millions of tourists annually, unless the welcome mat is somehow not visible enough; or is withdrawn. If we now have over 300,000 tourists annually from Japan, we also know that there are 9 million or more Japanese tourists who are going somewhere else this year. And, we are told that 25% of the population of Hong Kong take an overseas trip annually. Can one imagine what will happen when just 1% of the citizens of the People's Republic of China proceed to the airports of Beijing, Shanghai and Canton for a visit to families overseas or to savour exotic places like Banff or Victoria that are now seen by hundreds of millions of Chinese televiewers?

And for those who wonder how much disposable income there might be for such purposes in the Asia Pacific region, it might be worth reflecting that Japanese tourists were an impecunious rarity at Expo 67 in Montreal, while twenty years later at Expo 86 they were commonplace and wealthy. Consider also that at an airport like Bangkok, which now has fifty-seven airlines on its roster, one can stand for an hour and see only the occasional European face among the thousands of passengers passing by.

I have known a Japanese businessman, Tokishiro Shiina, for a quarter of a century. He was the first businessman permitted to leave his country on a selling trip after the second world war. Early on in our acquaintance he told me that the Japanese prefer to do business with their friends. We did indeed become friends and, in the business we accomplished together with the greatest of ease, I came to trust him unreservedly. I like to think that trust was reciprocated. Certainly with the business done, we remain the best of friends.

The point is that, while the Japanese make it a specific preference, all business people would like, if they could, to deal with friends. The cultivation of friends is a spontaneous activity in our own immediate society, but it requires patience, sensitivity, much effort and considerable communication and travel to achieve understanding and solid friendship across oceans and national and cultural boundaries. The impact of conferences, festivals, sports meetings, service club gatherings, trade shows, world expositions, city twinning, cultural, academic and student exchanges—events where people from two or more countries congregate because of a common interest or desire—is the sort of tourism that leads to real understanding and firm friendships. The more of this we can undertake to do, the more we strengthen that Canadian bridge, and the more we enhance our role, especially in Vancouver, as a communications centre.

Whatever the input and effort of governments in the promotion of tourism, there is one task that Canadian governments must undertake in this overall endeavour. This is research into the development of tourism itself; not only in terms of statistics like lengths of stay and average tourist expenditures, but on the perceptions of host communities as well as travellers, and on the desirable pace of tourist development considering the cultural, environmental and economic realities of a given locality and the nature of the likely tourist influx. It is the positive encounter between guest and host, whatever the impetus, that strengthens the bridge and makes a return engagement more likely.

The importance of this personal encounter is that it provides the cement of the foundation that makes our bridge a vital force for peace. Tourism itself cannot prevent war, and indeed can be destroyed by conflict. But tourism and peaceful meeting places can improve attitudes and understanding. And since travel and tourism constitute the largest business and socio-cultural activity in the world already, and contain the means to educate, promote and co-ordinate a legion of co-operative endeavours, it is not unreasonable to assume that the more prosperous and pervasive the travel and tourist industry becomes, the larger the contribution of that industry to peace and harmony.

In the process, what we have to avoid is the sort of congestion that has marred far too many of the world's more popular meeting places. It would be a great pity if we did not take all the prudent steps necessary to avoid such a calamity in Canada's cities and countryside. It would be the one mishap that could undermine our proper claim to be an active bridge between cultures and nations, whether they be east or west, north or south.

As a nation, and as individuals in a society that actively encourages cultural diversity we are, I think, unpretentious enough to be able to express convincingly our conviction that the hostilities and anxieties of an imperfect, fast-changing world should be eased by whatever means come most readily to hand. We know ourselves that illumination and information can ease fears that are deeply rooted, even unfounded. That is why Canada makes a very fine bridge, in any direction.

Trends in International Hotel Financing

Clive Leigh
Partner
Jones Lang Wootton
London, England

Introduction

Finance is arguably the most important factor affecting the hotel industry. Not only does the successful development of a new hotel depend on the availability of suitable equity, development and long-term finance, but hotel values themselves are often dependent upon the existence of a strong secondary market.

As you may know I am a partner in London in Jones Lang Wootton, which is one of the leading firms of international chartered surveyors and real-estate consultants. We have some fifty of our own offices in eighteen countries around the world, and are closely involved in the hotel markets in Europe, America, Hong Kong, and Australia.

Last year we were sponsors of a study undertaken for the International Hotel Association (IHA) by Horwarth and Horwarth, and we were the co-authors of the chapter, *Financial Structure of the Hotel Industry*. Much of my talk this morning will deal with the results of that study, I will, however, try to put some flesh on the bones and should therefore point out that my background is European, the observations are my own and do not necessarily reflect the views of my colleagues around the world or of the International Hotel Association.

Toward the end I will try to draw some conclusions for the hotel industry in British Columbia. Hopefully, that will lead to further healthy debate which can only be good for the hotel and tourism industry here.

You do not need me to repeat how important tourism is to the economy of British Columbia and that many studies have confirmed the increasing mobility of business and tourist travellers who require good modern attractive hotel accommodation. This is not only true for international and intercontinental travellers but also domestic visitors, whether from British Columbia or the rest of Canada.

Internationalism

We are now clearly entering the era of the global real-estate and finance markets. Free market and government forces are promoting international business activity and the hotel industry, like any other industry if it is to survive, must look to satisfy the needs of its customers whether those customers be the guests that stay in the bedrooms, the diners that come into the restaurants, the developers who build them or the investors and bankers who provide the necessary finance.

In the past the customers and finance may have been provided locally, but today we must look to a mix of both the local and international markets. For that reason, the IHA study was a broad international overview rather than an analysis of any individual market. It should therefore be used as background to further study of the market in Canada and British Columbia. In this talk I shall be concentrating on the provision of equity finance, leaving others, far better qualified than myself, to deal with the provision of loan capital.

The Investors

Experience has shown that there is a wide range of actual and potential hotel investors, varying from the major institutions to wealthy private individuals, from corporate conglomerates to opportunists. Government bodies have also been known to invest in hotels from time to time.

Different categories of investor will have different viewpoints but I would suggest that the important criteria for any investment are:

- Income growth
- Capital growth
- Security
- Ease of management
- Ease of disposal

Each investor will attach his own weight and ranking to those criteria which are largely self-evident and do not need much further explanation.

The investors will generally have further requirements which will influence their decision whether to invest and on what terms. In outline those other requirements include:

Cash flow

Some investors require a basic level of income, others are prepared to forego some initial income for future capital and income growth.

Safeguards
Investors normally require some safeguards against perceived risks. These can be the usual risks of development, interest and exchange rate fluctuations or changes in market conditions.

Taxation
A number of investors are not liable for tax or have a special tax status. They can resent any implication that they should pay tax on new investments. Complicated tax shelters, overseas havens and other financial devices can be tax-efficient but they can also be most unattractive to conservative investors.

Safety
It is natural for an overseas investor to wish to ensure that his funds are placed in a safe country where there is a stable currency. Safety and stability are, of course, relative terms and special factors may attract the investor to a particular country. Switzerland and the U.K. have been popular for this reason in the past, and nowadays Canada can be included in that list.

Any investment decision can well be influenced by the additional benefits which might arise from the construction, operation or ownership of any particular piece of real estate. It is this "added value" element that has in the past caused airlines, railways, building contractors, travel agents and even governments to own hotels.

Status
When investing in hotels, corporate and other, traditional investors prefer those which are compatible with their own investment philosophy and criteria. Some will seek 5-star upmarket hotels whilst others will look for high yielding, more downmarket operations.

It should be acknowledged here that many hotel deals are influenced by personal considerations. The purchaser may have a particular affinity for the hotel or may wish to own what is considered to be one of the best hotels in the world (or at least one that is better than his compatriot's).

Risk/Reward
Any investor will be seeking a correct division of the risks and rewards between development and ownership and also between the ownership and occupation of the land; which in the case of the hotel means the correct allocation of the risk between the owner and the operator.

The Hotel Operation
Whatever detailed investment criteria may be employed, there remains a basic requirement that the hotel itself must be able to generate sufficient income to satisfy both the operator, the investor and the bank borrowings. In practical terms this means that the hotel must be well-located, properly designed for its location and

target market, and it must have the correct operator, who should be well-motivated.

The Financial Structure of the Hotel Industry

In the study for the International Hotel Association we identified the differing approaches of the hotel investor, the hotel operator, and the hotel developer, and acknowledged that one party could undertake two or even all three of these different roles.

We concentrated on the investment role and our enquiries revealed that, so far as investors internationally are concerned, hotels are generally perceived as falling within the leisure sector, which is considered to be a growth market and therefore an appropriate area for future investment. In short, we found that hotels are considered to be good, inflation-hedged investments.

However, they are also considered to be specialized, requiring particular skills and expertise; especially as their performance can be seriously affected by external factors outside the control of the management, such as changing exchange rates, cyclical markets, terrorism and natural disasters. Whilst these factors were considered unfavourably by many, other investors felt able to rise to the challenges they presented.

Unless the investors themselves possess the appropriate skills to deal with hotel investments, they will need to recruit or call on outside expertise. This is good for the consultants, but to the investor the employment of specialized staff was not felt to be cost-effective where the hotel portfolio is small. In addition, hotel buildings are considered by investors to have few alternative uses compared with other types of commercial buildings. It was, however, specifically noted that an all-suite hotel can often be converted into an apartment block.

As a matter of policy, investors seek to spread their risks by investing in a range of properties and locations so as to reduce the risk of a downturn in one geographical market. They also prefer the security of a reputable tenant or hotel operating company and therefore corporate funding involving a number of hotels has assumed more significance than individual project finance.

When investing in a hotel many investors prefer to rely on the skill of a good competent operator and therefore in many investment decisions the expertise or the strength of the operator/hotel management company is of crucial importance. Some investors, however, are prepared to invest in projects which are not managed by international chains.

Investors, in general, prefer city centre to resort hotels, and especially favour gateway cities. In such prime locations hotels are often acquired in the expectation of rising property values and capital appreciation rather than the running yield on the funds invested. This is particularly true where investors are able to take a long-term view on their financial returns and are able to accept lower initial yields. You will be aware that Japanese investors are a good example of this.

Other nationalities, however, may also play an important part in the international hotel market from time to time; depending on variations in exchange rates and on the economic strength of the respective countries. To highlight this point I would like you to see the difference in the Central Bank discount rate (or prime rate) in various countries toward the end of April:

U.K.	13.0 %
France	9.5 %
Switzerland	4.5 %
Japan	2.5 %
Hong Kong	11.5 %
Australia	18.75 %
U.S.A.	7.0 %
Canada	12.39 %

In the study for the IHA we identified a contrast between the forces driving hotel investment in the U.S. and in Western Europe. In the U.S., the market is income stream oriented, whilst in Western Europe it is capital driven. In the U.S., hotel companies are tending to divest themselves of real estate, concentrating on hotel management and advice; whilst in Europe, and particularly in the U.K., hotel companies are generally keen to acquire real estate.

In emerging countries (such as India where the IHA Congress was held) different factors are at play and the availability of hard currencies, government support (both financial and political support) and economic and political stability play an important part in most investment decisions. At the congress it was suggested that a useful source of investment finance for an emerging country should be its own expatriate community.

Specific reference was made in our study to the important part that can be played by the public sector in assisting hotel development. This support can vary from general political assistance to the provision of hard cash; and various different forms of assistance have been provided by governments around the world. The role played by the English Tourist Board is only one example.

We referred in our report to the possible consequences of government financial support, whether by beneficial tax arrangements, grant aid or soft loans. Such governmental intervention need not always be for good and can lead to cases of over-building as has occurred in the U.S. It must, however, be admitted that the same result can be achieved by free market forces.

In the study we specifically recognized the suitability of hotels to assist in environmental regeneration, including town centre schemes; and that is one aspect which is very relevant to us here in Vancouver.

We pointed out that in appropriate locations the incorporation of a hotel in a mixed-use scheme can be a significant advantage. Since it would be perceived by the local authorities as a planning benefit, it should inject activity and ambience into the scheme and provide supporting facilities for the rest of the development, such as overnight accommodation, restaurants, health clubs, etc. The synergy of such a mixed use development can be of considerable benefit to the viability of the hotel and to the rest of the development. It would also improve the prospects of securing finance for the hotel and, I suggest, the remainder of the scheme.

As to emerging trends, we noted the importance of franchises in the U.S. and the potential that exists elsewhere for suitable franchise arrangements. These arrangements give the franchisor the opportunity to capitalize on the company's operational and marketing skills, increase their exposure, and extend their marketing and referral network without significant capital commitment. Franchises also give the owner/investor the opportunity to obtain good management advice, a high profile, and brand recognition whilst retaining control over the asset and its management, and the ability to deal with it, as appropriate, in the future.

We suggested that we can expect to see growth in the number of franchises outside the U.S. but that this will largely depend on two things. Firstly, the willingness of franchisors to extend their operations. That means substantial commitment by them as well as additional quality control and supervision. Secondly it will depend on the availability of suitable franchisees. These can be major groups but are more likely to be small/medium companies with three to ten hotels who are willing to operate (as franchisees) under the brand of one of the major international groups. We noted that these second tier companies are becoming a major force in the U.S. and in some instances they are in a position to break away and set up their own brand names.

In the report to the International Hotel Association, we highlighted the importance of attracting finance into the hotel industry for both existing hotels and new development schemes. We also advocated that in those countries where grant aid is needed, the appropriate authorities should seek to improve the "priority" ranking level of the hotel industry with the governments concerned.

Looking at the hotel industry itself we stressed that it needs to make itself more comprehensible to actual and potential investors and improve its image with financial institutions and governments. It will need to educate and keep the investors up to date with changes in the marketplace and the new facilities which are being incorporated into hotels. Resort hotel operators will need to find appropriate means to reduce the seasonality of their business and achieve profit stability. Innovative financing packages will have to be developed in these countries where they do not currently exist.

We also concluded that hotel operators will, in many cases, be required by investors to accept a greater participation in future projects. In difficult financing situations, the operators will have to be flexible and accept tough terms if the requirements of financiers are to be met.

The United Kingdom

At this point I feel it would be advantageous to refer to a pilot study which was undertaken in the United Kingdom by Jones Lang Wootton in 1988.The study was an attempt to identify the attitude of institutional investors to hotel projects and leisure schemes.

We arranged for telephone interviews of sixty-two U.K. institutions, both pension funds and insurance companies, to establish whether they invest in hotels or leisure projects and to assess their attitudes toward leisure property investments in general.

The conclusions were:

- Less than a third of those interviewed had interests in leisure property, most of which was in hotels, retail schemes with leisure, and "other" leisure projects.
- Only six out of sixty-two were, or had been, investors in hotels.
- Importantly, none of the leisure investors could be described as having a highly positive attitude toward leisure. Some of the schemes had been inherited and were seen as "accidental." For example, a large parcel of real estate might include a hotel element.
- Most of those who were not involved in leisure had clearly formed views on the subject. They referred to matters such as fund policy; the high risk/low return standpoint; and the need for specialist knowledge. They put their money into the perceived "safer" areas of industrial, office and retail property.
- Of the forty or so negative responses, about thirteen appeared to have made an intelligent assessment of leisure investment or were open-minded on the subject.
- None of the respondents were able to supply first-hand information on active investment in leisure or the provision of venture capital. It appears that in the United Kingdom the property departments of the institutions are not the ones

to deal with such projects.

The researchers took down a number of interesting quotes.These two gave the main lines of thought:

> "It's too dependent on operators. I'd rather buy shares in companies like Brent Walker—you get a better return." (Large insurance company).
>
> "Traditionally we have always looked at leisure investment as more of an investment in the expertise of the particular company rather than investment in property." (Large pension fund).

While I am not a researcher or statistician, I suggest attention should be paid to such comments as:

> "Funds like ours are conservative. Before we pioneer leisure, we'd have to be sure of good returns." (Large insurance company).
>
> "We have no intention of trail blazing—we haven't got the experience, knowledge or time." (Large pension fund).

In other words the U.K. institutions appeared to be cautious and conservative. I suspect that applies over here as well.

The U.K. Hotel Market

I should explain that it is generally the case in the United Kingdom that a hotel with vacant possession is much more valuable than if it were subject to a management agreement or an operating lease. This is because we have a number of active and international hotel companies who both own and operate their own hotels and are seeking new properties.

Despite the existence of a very active and sophisticated commercial real-estate investment market which is dominated by the institutions, we have a restricted investment market in hotels. This may well be the direct consequence of the institutional reluctance to move outside what they see as conventional forms of real-estate investment in shops, offices and industrials. Nevertheless, there is now a growing awareness of the substantial growth that has occurred in the capital value of hotels. The institutions and others now appear to be reviewing their established policies and philosophies.

Operating Agreements

Around the world it used to be standard for hotels to be operated by international hotel operating companies, predominantly the U.S. chains, on management agreements lasting twenty years or more, with the operators having rights to break and to extend, but with the owner being given little direct involvement.

The International Hotel Association Study concluded that (i) operators will in future be required by investors to accept a greater participation in future projects and that (ii) in difficult financing situations the operator will have to be flexible and accept tough terms. I believe it is now more appropriate for such contracts to run for shorter periods than twenty years and that it should not be unusual for such contracts to contain termination provisions either on specific events or at set intervals.

In appropriate cases it should be anticipated that the operating agreement can be terminated, by the owner, to take advantage of particular market circumstances; for example, where a substantial gain can be achieved by selling the property with vacant possession. In such instances, some form of compensation may be payable to the operator but this will depend upon the nature of the agreement, the reason for termination and the relevant position of the two parties.

In such agreements it is now commonplace for the operator to have to accept subordination of the management fee income to satisfy the financiers' cash flow needs, but I believe the operator should also be prepared to consider giving some form of income guarantee if that is required by the financing source. Such guarantees may have to be offered if the operator wishes to be involved in a hotel scheme in a difficult or emerging location. They may also have to be conceded if he is in competition against other international operators in popular locations such as London, New York or Paris.

Inevitably, the hotelier will require something in return which could be a pre-emption option, the acquisition of an equity stake (at no or low cost) or the opportunity to participate further in the scheme, if successful, on beneficial terms. Such arrangements can be contracted in a number of ways and the precise form of documentation will depend on the legal system of the country concerned. To a large extent it may not matter whether the arrangement is called a lease, management agreement or even a profit sharing arrangement but what will be important is the effect of the documentation.

British Columbia

What conclusions can then be drawn for the hotel market in British Columbia? First, it is necessary to acknowledge the current needs of international travellers and to go out and attract those travellers, both tourists and business people, into Vancouver and British Columbia. They will want their accommodation to meet certain standards of price and/or quality; the industry should aim to meet those standards.

The problems of seasonality must be addressed. This can be achieved by capitalizing on the resources that already exist to attract visitors during the slack periods and also by fostering new activities to generate new business. The objective should be to generate both tourist and business traffic. No doubt attention is being paid to the attractiveness of Vancouver International Airport to the worldwide airlines and the ability of tour operators to bring foreign visitors direct into Vancouver.

All these elements are, I feel, most important, as investors will be seeking hotels with good and increasing levels of profitability and these will only be achieved if the industry can generate satisfactory levels of room occupancy and average room rate.

Fortunately, Vancouver is a gateway city and should, I feel, look logically southward to the States and southwestward to Australia, Japan and Hong Kong for equity capital. These should also be the areas from which British Columbia is seeking to attract its visitors. The expanding areas of Korea, Taiwan, and even China should not be overlooked.

The particular needs of investors from these locations should then be studied so that the correct financing packages can be put together. For example, American money might best be used, in relatively small parcels, to provide venture finance where the risks and the rewards are comparatively high.

Japanese money may be suitable for a city centre hotel or tourist facility when Japanese equity finance and construction know-how can be combined with a tour operator to create an interesting package. Alternatively, Japanese equity may be available to other overseas developers and I am aware of existing close links with certain Australian developers.

Of course, much investment into Vancouver is coming from Hong Kong and this may be due to political as well as financial factors. In such cases, the objective may be long-term capital growth rather than short term income. Therefore the investor will be seeking assurance as to the long-term growth prospects of the tourist industry in British Columbia.

As a foreigner I will not dare to suggest from this platform how financing packages might be structured but I have great faith in the ability of the free enterprise market to generate innovative and successful financial packages provided that the general environment is suitable.

I therefore propose that the job of the industry and the relevant tourist authorities is to create the most favourable environment in which the hotel industry, and thereby the fortunes of hotel investors, can prosper.

Questions and Answers

Question:

In North America, 70% of the business generated is commercially oriented. Do you think that if we get to parity with Hong Kong, Tokyo, or Paris, as you mentioned, people will be able to pay the rates that we would demand?

Mr. Leigh:

It is very important to identify your market. If the market is local, then comparisons within that market are essential. Perhaps what one would need to do is compare San Francisco, Los Angeles and Vancouver if those three cities are the market environment.

Question:

Do you feel an investment that is fundamentally capital-driven or appreciation-driven, would continue, because of the present economic and political situations? Are we going to see all investments turn into capital- or appreciation-driven ones?

Mr. Leigh:

I think there is an opportunity for both. I would not rule out the capital-driven market simply because it generates low returns. It is possible to have a nil-income bond, provided that one has confidence in capital-growth in the future. If you look at the market in Hong Kong and their method of appraisal and valuing real estate there, you see that they generally look at capital growth and at the actual revenue. In the meanwhile, the capital is incidental. That philosophy has been brought over here. So as long as there is a natural growth, values are expected to be borne.

You also have the effect of monopolies. London is a classic example of that. We only have about thirty four- or five-star hotels in the centre of London. There are a large number of international chains that are still seeking representation over there. Prices will tend to be maintained as long as there is no explosion in further hotel development. I think that there is a strong probability that the upmarket hotels will continue to be capital-driven, and probably the downmarket hotels will continue to be income-driven.

Investments in Tourism: The Asia-Pacific Perspective—Part I

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Tourism is about people—the movement of people, their desire to explore new lands and enjoy new experiences, and their need for recreation and leisure.

When disposable money equates to the anticipated pleasure to be derived from a proposed visit to a destination, tourism is born. This is true for tourism worldwide. Today we are seeing the effect of the global approach to tourism and investment in Vancouver, British Columbia and Canada.

The following factors contribute toward increasing the pace of such global tourism and investment:

- Advances in information technology and the speed of information transfer between countries.

- Peace. Tourism thrives on peace. So does investment. We see peace in the Persian Gulf, Philippines, potential peace in Afghanistan, Central America, and possibly in Cambodia, India and hopefully in Sri Lanka.

  The only areas of major conflict left in the world may be said to be confined to South Africa and Lebanon.

  Wars are costly, but a result is inevitable. Militarism in peace time is costlier.

  President Gorbachev's policies of *Glasnost* (political openness) and *Perestroika* (economic restructuring) has generated an unprecedented interest and fascination in the discovery of a hitherto hidden Soviet Union.

  These two new policies seem to imply that the U.S.S.R. could not economically benefit from maintaining a worldwide military presence. Neither can the U.S.A. with its deficit.

  What is even more promising is the resurgence of China as an entrepreneurial nation. The free enterprise system is also making headway in Korea and Taiwan; the relaxation of travel restraints has resulted in increased overseas travel and tourism to and from these two countries.

- Tremendous economic growth experienced by Asia-Pacific countries. Rising disposable income, improved standards of living, large trade surpluses, currency appreciation, corporate and business expansion, all of these result in overseas investment of surplus funds.

  As peace marches on, global investment and global tourism will march alongside.

Why Canada?

Canada is a respected, compassionate country; it is clean and safe, politically stable, and known to be friendly to immgrants and investors. Canada offers a good educational system, acceptably high living standards, and many opportunities for business development. At the same time, the world is experiencing changing travel patterns, and increased travel education and travel experiences.

Why British Columbia and Vancouver?

Our city and province are characterized by a multi-cultural society, safety, an excellent climate (forget the rain for a moment), and fantastic scenic beauty. We have a Pacific Rim location, an excellent banking system, good business opportunities and good airline links.

Newspapers have been focussing public attention in recent times on Japanese and Hong Kong investments in Vancouver and Whistler, with headlines such as "Japan Inc. of Whistler. Japanese now control 40% of Whistler Village." Such sensationalism always creates interest, but may not always present the truth. Let us take a look at recent transactions.

Japanese interests have purchased Nancy Greene's Olympic Lodge, the Fairways, the Crystal Lodge and the Listel in Whistler: Forty per cent of Whistler? Most certainly not.

According to Investment Canada, there were 662 direct acquisitions by foreign investors in Canada during 1987–1988. These foreign direct investments represented assets of $20.2 billion.

The majority of investments, 60% ($14.4 billion) originated from the U.S.A., 24% of total investments originated from Europe, and only 4%—amounting to $670 million—from Japan.

The value of investments was $7.3 billion in Ontario, $2.3 billion in Quebec, $2.0 billion in Alberta, and $459 million in British Columbia, respectively. Other provincial and territorial investments accounted for the balance of the total of $12.5 billion.

Foreign direct investment in tourism products such as hotels, resorts, recreation facilities (golf courses, etc.) create excitement. But they constitute a very minor percentage of total investment.

In 1987–1988, investment in the manufacturing sector accounted for 38.7%; the primary sector (mines, quarries and oil wells) accounted for 9.2%; and construction and services accounted for the balance of 52.1%. Accommodation, food and beverage services are included in the balance of 52.1% and contribute only 4.2% of all sectors.

Why then does an acquisition of a hotel attract so much media attention?

- Hotels and resorts are usually very visible tourism products. Most of these are well located with known and advertised special features.

- The public possess greater awareness of hotels and resorts, especially if they are located in popular areas of British Columbia. More often than not, hotels and resorts are associated with happy memories: weddings, honeymoons, anniversaries, Christmas parties, dances, holidays, etc. People tend to remember them. Real-estate sales involving commercial offices, retail buildings and stores, on the other hand, do not arouse such active interest and are ignored or easily forgotten.

- Hotels and resorts are labour intensive operations. Whenever ownership changes, there is always uncertainty as to continuity of employment. Media exposure consciously focusses everyone's attention to the sale of the property and this immediately directs the employees' attention to the uncertain future—perceived or otherwise.

Why do investors choose hotels/resorts for acquisition targets?

- Immediate and continuous cash flow.

- Visible investment/not a development project.

- If well-located in a downtown location, it is likely to hold its real-estate value.

- If it is a four- or five-star establishment, it will be a higher profile investment, displaying the "demonstration" effect to the maximum.

- Ego factor.

- It's considered a good hedge against inflation.

- It's considered a safe long-term investment.
- It's expected to yield an acceptable 5% to 10% return on investment.

Although both Japanese and Hong Kong investors view tourism products as investment targets, they approach their investments differently and use different techniques in completing the transaction.

The majority of Japanese investors are in for the long haul. They view a twenty-year time span as their investment hold-out period. They use professional assistance from reputed high-profile lawyers, accountants and realtors to carry out valuation studies, appraisals, market analyses, financial forecasts, examination of title, etc., ("Before-the- deal" Syndrome).

Their preference is to invest in areas where they have an established specialization (e.g., textile manufacturing) in order to lessen this dependence on outside expertise. They have a high propensity to use their own management and rely in many instances on their own personnel in key areas. They make decisions quickly and are used to the international scene and business methods thereof. In most cases, they arrange finances in the country of investment to cover their purchases.

Whatever the motives, methods and manner of investments, their impact is significant—and for the long-term. Their primary areas of impact will be on quality of product and service, operations, manpower development, socio-economic factors, and government revenues.

Impact on Product and Service Quality

The important word here is service quality. Years of tradition and culture (visitors are considered part of the family) and training, have earned hotels in the Orient a legendary reputation for quality of guest service. North American hotels just don't compare.

With the investments we have seen in recent times, we should expect the new ownership to place great emphasis on service quality—from bellhop to general manager.

Service quality will offer strength to the marketing and sales division. The marketing staff will expect consistent service basics, service essentials, and service differentials to market to guests.

Impact on Operations

Changes in market segment mix, changes in customer base, changes in source market areas, changes in quality levels and standards, and changes in employee/service ratios are some of the consequences that may follow from Asian investment in hotels. There also may be changes in restaurant concepts, design themes, ambience, menu concepts and offerings, costs and prices, etc.

More importantly, the impact on human resources will be critical, for two reasons.

- With the change in the source-market areas, the requirement for knowledge of the Asia-Pacific languages of Cantonese, Japanese, Mandarin, Taiwanese, Korean and perhaps Australian, will be particularly strong. With the influx of travellers from these areas, there will be a strong need for speech translators, guides and message translators for fax messages. There will also be a need for front-desk staff, wait staff and maid staff with knowledge of such languages.

  This is quite reminiscent of the Middle Eastern investment era when most Europeans began learning Arabic language and customs.

- It has been forecast that the young and active labour force will be in short supply in the years to come. Serious thought has been given by many U.S. hotel chains to this impending situation which may well turn critical in the foreseeable future. These chains have targeted single parents, housewives, househusbands, and early- and late-retirees to meet the possible labour shortage. Flexible working hours, provision of day-care facilities in the work place, and working at home are some of the options offered to staff.

Operational revenues should increase. Average room rates in Vancouver are quite advantageous to foreign visitors. Room rates in Japan and Hong Kong are much higher, and even rates across the border in Seattle are higher.

Gradually, before 1989 ends, there will be pressure for room rates to be priced higher. As long as the Canadian market segment does not feel that downtown Vancouver room rates are exhorbitant, the price increases will be absorbed. We expect hotel average room rates to be in the region of $130 to $140 in the downtown Vancouver area in 1992.

Sophisticated statistical techniques to measure quality, and forecast room rates and occupancy trends will be used to maintain an edge over the competition.

Finally, care-yield management will be required to ensure:

- That corporate Canadian travellers are not alienated and do not withdraw their patronage from downtown Vancouver to suburban hotels.

- That Vancouver hotel room revenues are maximized.
- With investments in Vancouver, Whistler and other resort areas, that there will be greater movement of overseas visitors between downtown Vancouver, Whistler and other resorts.

Impact on Socio-Economic Factors

- Favourable impact on population growth.
- Strong, well organized, patient Asian entrepreneurship will offer unprecedented competition to existing businesses.
- Keeping up with the Joneses will soon become keeping up with the Lams or the Wongs.
- Polarization of interests, lifestyles, communities and employment. This is a negative impact and should be addressed.
- Interlocking business, whereby one company owns and operates travel agencies, hotels, restaurants, rental cars, gift shops and guide services. Such a company will threaten the small independent business in Vancouver.
- There will be a strong need for trained, skilled English teachers from kindergarten to grade 12 and higher levels.
- There will be a strong need for education in human values of truth, right conduct, love, peace and non-violence to the environment.

Impact on Government Revenue

The impact on the provincial government treasury will be favourable due to increased revenues from property purchase tax, capital gains tax, property taxes based on increased values, and sales tax and the secondary inflow of tax revenue.

The increased revenues in government coffers should allow an increased budget for expenditures in tourism infrastructure development, the establishment of tourism development zones, the provision of neutral incentives to increase private investment in these zones, the provision of low-cost loans for approved hotel renovation programs, and the provincial tourism marketing budget. Most importantly, we would suggest that the provincial government should seriously consider establishing a Tourism Development Board as the sole arbiter of the development and administration of tourism in the province. This may allow it the direction and cohesiveness that is perhaps currently lacking under a fragmented situation.

Implications for the Future

The rise of Asia-Pacific countries to positions of wealth and economic power will probably influence Vancouver and British Columbia for many years ahead.

We have so far only felt the influence first of Hong Kong and then of Japan. We will most likely, in the near future, feel the impact of the growth of Taiwan and South Korea as strong economic entities. Let us take a brief look at these two Asia-Pacific countries' economic performances:

South Korea

- Population 42.1 million in 1987
- Inflation rate 3.5%
- Real GDP growth rate 11.1% in 1987
- International reserves $9.6 billion U.S.
- Trade surplus $7.66 billion U.S. in 1987

Taiwan

- Population 19.5 million
- Inflation rate 0.4%
- Real GDP growth rate 11.1% in 1987 and 8% in 1988
- International reserves $74.8 billion U.S.(December 1988)
- Trade surplus $20.8 billion in 1987

In summary, for Canada the major implications of affluence in the Asia-Pacific nations are:

- The strong possibility of future investments—which may include both immigration-based residential purchases, as well as commercial, industrial and real-estate investments—from new and existing sources amongst the Asia-Pacific countries.

- Urgent transportation requirements, including bridges, further development of the ALRT, additional runways at the Vancouver International Airport, etc.

- Gradual movement of Vancouver households to the greater Vancouver suburbs, i.e., Delta, South Surrey, Surrey, Langley, Burnaby, Coquitlam etc., as residential prices and property taxes in Vancouver, North Vancouver and Richmond begin to experience the inevitable escalation.

- The requirement for additional hotel rooms, recreational facilities, and retirement centres in the suburbs.

- Planning for the necessary manpower to cater to the employment needs in British Columbia.

- Asian work ethics expect the employee to conform to a high productivity ratio in terms of remuneration and the work week. This may result in high labour turnover within industries. Trade union negotiation may well be based in future on productivity as well as cost of living increases.

Investments in Tourism: The Asia-Pacific Perspective—Part II

Yasushi Ogawa
President and CEO
IPEC Incoporated
Tokyo, Japan

I would like to thank you for inviting me to participate in the Tourism 2000 conference. It is an honour and pleasure for me to be able to share with you some of my thoughts about Japan and Canada, and about tourism, in particular.

Trends in Overseas Tourism by the Japanese

I should begin by telling you something about Japanese tourists. In 1988, the number of Japanese who went overseas was nearly 8.5 million—almost a third of the population of Canada. Thirty-four per cent of them chose the United States as their destination, with Hawaii alone accounting for 16%, or 1.28 million tourists.

For the past twenty years or so I have visited Hawaii several times a year, and I have had ample opportunity to observe Japanese tourists there. Hawaii is something like a mirror that reflects the changes in international activity both by Japanese enterprises and by Japanese people—changes that have been supported by the growth of Japanese industrial and economic power.

The America that I used to see at Waikiki Beach is different from what I see now. These days the island of Oahu in December and January looks quite a lot like downtown Tokyo. It almost reminds me of rush hour on the Tokyo subway. Everywhere in shopping centres, on Waikiki Beach, and on the streets there is a flood of Japanese tourists. Golf courses are no exception; they are as crowded as a public golf course in Japan would be, and it takes six hours to play one round.

Background

According to a recent white paper by the Japanese Immigration Bureau, there are several major reasons for the upsurge in Japanese tourists going abroad:

- An increase in level of income.
- The appreciation of the yen against foreign currencies.
- More vacation time. Although they still take less than Americans and Europeans do, Japanese employees of large organizations are starting to take more time off than they used to.
- The prevalence of package tours, where everything is taken care of, making it easier than ever for the tourist.
- The trend toward what we call *kokusaika* (internationalization), causing Japanese to become more vitally involved internationally in a number of areas such as politics, economics, culture and sports.

In spite of these developments, when you think of Japanese tourists, the image that often comes to mind is flocks of Japanese moving around together in a group following a leader with a flag. Recently that has changed somewhat, but there is a reason for that persistent image of Japanese tourists.

When sightseeing overseas started becoming popular, with realistic prices within reach of the average person, the majority of Japanese tourists tended to go where everybody else goes, and they went in groups. And one of the main reasons Japanese tourists flock to one place like Hawaii seems to be because of their anxiety about speaking English. My observation is that less than 20% of the Japanese tourists who go overseas will be able to speak anything but broken English, and the number who can really communicate in English is probably less than 10%. And yet, as you may have heard, almost all Japanese study English for six years or so in school. So why is there this problem with communication? The answer is to be found our history.

The Japanese Way of Communication

During the Tokugawa Era, from 1603 to 1867, Japan was closed to the outside world. During that period of nearly 300 years, implicit communication almost reached the level of an art. What became important and prevailed was the very opposite of the kind of explicit communication that is valued in English and some other Western languages.

While English has very clear-cut expressions of yes and no, Japanese has many that are in between, with some that are closer to no and others that are closer to yes. These indirect expressions are widely used, and those who can use them well are respected and admired.

As an example, *Zensho shimasu* literally means "OK, I will take care of it." But its real meaning, which is understood by all Japanese, is far closer to no. Japanese work very hard at developing the skill of communicating their own intention indirectly. And hand-in-hand with that goes the skill of inferring and understanding what other people's true intentions are.

There is a popular Japanese expression that can be quite puzzling to foreign businessmen working in Japan: *Kangae-te okimasho*. If the foreigner takes this at its literal meaning of "I will think about it" and then expects a positive response from the Japanese businessman, he may be disappointed eventually. The reason is that the real intention of the expression often is to say, "I'm not interested in that matter." So foreign businessmen are happier once they learn the words *honne* and *tatemae*, because honne is an expression of one's real intention, while tatemae is a superficial statement, for the sake of appearances.

Being a homogeneous people, all sharing a common history and outlook on life, speaking the same language, an island nation, with little exposure to foreign people and culture until a little over a hundred years ago after 300 years of rigidly enforced isolation, the Japanese can be difficult subjects for the so-called internationalization that now seems so important.

Anthropologists interested in Japanese culture sometimes take *haiku* as the object of their studies. Haiku, as you may know, is a unique Japanese art form, the world's shortest poetry. It consists of only seventeen syllables, which must be in combinations of five, seven and five syllables, to express thoughts about life, nature, the seasons, the heart and even eternal truths.

One famous haiku is: *Furuike-ya kawazu tobikomu mizuno oto*. The literal translation is: "There is an old pond. A frog jumps into it. A splashing sound!" And when it is stated that way, the reaction of a non-Japanese may be, "So what?" But to most Japanese this short poem expresses a deep, profound quietness and a feeling of peacefulness. Hearing it, we know that the scene is not right next to a highway, nor is it the total silence of a cave. Peaceful tranquility is what it brings to mind.

Another haiku has these words: *Meigetsu-ya ikeo megurite yomo sugara*. It literally means something like: "There is a full moon up in the sky. I have walked around the pond all night." Does this kind of poetry sound strange? At the very least, it probably seems incomplete, as if something has been left out. But for many Japanese, these few words speak eloquently of the quiet, peaceful appreciation of nature and life. The words do not have to be explained; they do not have to be explicit. Most of us know the implicit meaning, and most of us have the same basic feeling when we read or hear that haiku.

Japanese people have a homogeneous culture, and this has been true for a very long time. But because Japanese have lived this way for so long, they are less familiar with life in different cultures. Traditionally, Japanese have always made it a point not to appear different from their neighbours in their own community. The goal is to fit in, not to stand out. Part of this involves learning how to express one's intentions implicitly, and that kind of learning starts in childhood.

For these reasons, it seems only natural for Japanese tourists to want to go where everyone else is going, and to want to go there in a group and do what everyone else is doing. But we are beginning to see some changes in that pattern.

Changing Patterns in Japanese Tourism

Several factors are bringing about those changes. One is the Japanese company, which, more perhaps than in some countries, directly affects the life of its employees. The more overseas contacts and exchanges the company has, the more its employees are involved. Students also go abroad to have direct experience in the everyday life of foreign countries or to prepare themselves for a future career, when that kind of foreign experience may be valuable to them.

Under the old exchange rate of 360 yen to the dollar, traveling overseas was too expensive for most Japanese. But now, with the dollar at about 130 yen, the situation is completely different, bringing foreign travel easily within reach of the average person. One of the results is that when Japanese tourists go abroad they learn how inexpensive things are and how delicious the food is. They get a lot of pleasure out of staying in hotels, eating in all kinds of restaurants, and shopping. In Tokyo, an overnight stay in a first-class hotel can easily cost $200 or more. Dinner in the hotel's restaurant will cost $100 a person, and even a cup of coffee costs the equivalent of $5 or $6. So the prices tourists encounter abroad are quite a bargain by comparison.

In the past, the main objective of Japanese tourists going abroad for sightseeing seemed to be where they went rather than what they actually did once they got there. "Getting there is half the fun," as the saying goes. But for many Japanese tourists, getting there was the whole point. A typical package tour to Europe might include one day in Paris, one in Zürich, another one split between Florence and Rome, with a final stop in Madrid, then back to Tokyo, all in five days. It was like that movie title: "If it's Tuesday, this must be Belgium." All of it was superficial, of course, but the important thing was that they had been to all those places. This kind of package tour was quite popular in the past, and people seemed satisfied with it.

Although some people are still content with that kind of "once-over-lightly" tour, the trend is definitely changing. Nowadays the one-week package tour might call for four days in Paris and three days in Switzerland; or one week in Italy; or a week in Portugal and Spain. And today's tourists have more specific interests and objectives: to visit museums, for instance; to go skiing; or to enjoy French cuisine. So the patterns of these tour packages are gradually changing.

Their destinations are changing, as well. There has been a shift away from Hawaii to Australia these past few years for people who want to go for golfing or marine sports. Other popular spots are Hong Kong and Singapore for shopping, and Guam and Saipan for marine sports. It seems that about the only remaining interest in Hawaii is as a warm place to get away to during the Japanese New Year holidays. And even when Japanese do go to Hawaii now, more of them are going to Maui or Kauai instead of Oahu, with Kauai becoming especially popular among Japanese who enjoy marine sports.

Canada as a Tourist Destination

More Japanese tourists are shifting away from the places they have always gone, like Hawaii and the American west coast, and instead they are going to such places as Florida, Australia and Canada. Of these, I think Canada is the most attractive, with its fantastic mountains, rivers, lakes and coasts. The mountains have fine facilities for skiing, there is good fishing in the lakes, and the ocean is ideal for marine sports. There are also some very good golf courses here that are attracting the attention of Japanese golf tours recently.

The advantage of Canada is that it gives tourists something to enjoy year-round, especially for those who like to get out and do things like golfing, skiing, sightseeing, eating out, fishing and hunting—Canada has it all. As I mentioned earlier, Australia is becoming popular with Japanese tourists, but Canada has an even greater variety of scenery and nature. I am sure that the more the Japanese hear about these great attractions here, the more they will want to visit Canada.

The seafood alone is enough to bring many people. The Japanese love seafood, and right in Vancouver there are sixty sushi shops—a greater concentration, per population, than Manhattan can offer. The lobsters and crabs here are delicious and taste as good as, and sometimes better than, anything you can get in a Tokyo sushi shop.

Some interesting results were obtained from questionnaires prepared by our travel department. These were responses from our clients who were going to major tourist destinations such as Hong Kong, Australia, Canada, Hawaii and the west coast. One thing we learned was that most of those visiting Australia want to try Europe, Florida or Canada on their next trip. In other words, many of them are one-time visitors to Australia. But among those who come to Canada, there is a high percentage who want to come here again in the near future.

One reason is that Japanese tourists go home with a good feeling about Canada. And that is a nice contrast to the feelings some of them have reported from other places they have been. Many, of course, come back with pleasant memories from wherever they have gone. But sometimes it is bittersweet. Some of those who went to the States said they had terrifying experiences in hotels, and some even reported being robbed. And the same thing has happened to Japanese tourists in Southeast Asia. Tourists who had gone to Hong Kong to shop for designer goods confessed that they ended up being cheated and were stuck with counterfeit items. And some who had been to Paris complained about mistreatment by sales clerks in souvenir shops.

I think that from this kind of experience, Japanese tourists are starting to appreciate Canada and to have more favourable feelings about this country than they do about some other destinations. The good public order that prevails here is an important factor, I believe. When I flew into Vancouver from Los Angeles, I was struck by the difference in how neat and clean Vancouver looks, how there is less litter and trash on the streets. And not only this, many Japanese tourists to Canada say that they can feel the warm hospitality of the Canadian people. These things make a big difference.

Overseas Investment

I hope that provides some perspective on tourism from a Japanese viewpoint. It is a topic I will return to. But I would like to turn now to the subject of overseas investment. Recent improvements in the Japanese economy have reached a stage that affects other countries. Especially since 1973, when Japan was able to overcome the problems of the oil shortage, there has been a growing gap between Japan's economic power and that of other countries.

When I was Asia managing director for Life magazine in the late 1960s, I used to make frequent trips to the United States. And in those days I would often hear about how a Datsun had burned up on a highway, or how a Toyota had broken down and stopped right in the middle of traffic. I never imagined the day would come when Japanese cars would surpass American cars in quality. But in recent years, Japanese car manufacturers have even had to impose voluntary restrictions on their exports from Japan, out of consideration for the American economy. And in other fields such as integrated circuits, TVs and VCRs, we have witnessed similar developments.

As major Japanese companies have become more involved in the international scene, so have their employees and the employees' families in their everyday lives. Many employees of major manufacturers are sent overseas with their families, where they have to cope with everything from educating their children to adjusting to life in local communities.

Even for those Japanese who do not go abroad under these circumstances, there is more contact with foreigners. The Ministry of Education has initiated a program that invites 1,000 to 1,500 native speakers of English to come to Japan to assist Japanese teachers of English in junior and senior high schools.

These developments have helped lead to a growing awareness of Japan's role in the international community. For background on Japan's increased international involvement, we can go back to the oil shortage that struck during the early 1970s. At that time, Japan undertook a policy to come up with technology that would minimize the consumption of energy in the long run. Meanwhile, most other countries coped with the problem by establishing policies to temporarily restrict energy consumption itself or by enacting other stop-gap measures.

Japan's strict policy of cost reduction and its successful long-term investment in research and development of new technology paid off with products that were a tremendous success in world markets—such a success, in fact, that Japan now must be very sensitive to the issue of trade friction when it comes to the quality and salability of its products.

Meanwhile, American capital investment fell behind and its international competitive power declined, due to policies of high interest rates and short-term return on investments. The Harvard management system had been widely accepted in the U.S. business world. But it was referred to as "the Harvard peril" by some top executives in major Japanese corporations, who believe that the results are only too visible today.

Japanese industry, which produced and exported such inexpensive, high-quality products, is now experiencing rapid changes. One reason is the increased necessity for overseas production, to avoid trade friction. The increased wages of Japanese workers are another factor.

Yet another reason, however, is the dramatic increase in the value of the yen against major foreign currencies, due to the growth in Japan's economic power. In the spring of 1986, the exchange rate was 240 yen to the dollar, and by the fall of that year it had gone up to 150 yen. Now, this year, it stands at about 130 yen to the dollar. One effect of this increase has been a strong acceleration in the trend toward overseas production. Automobiles are a prime example. This year for the first time, cars made in an American plant by a Japanese manufacturer were imported to Japan, and they are enjoying good sales results. The same thing is happening with Japanese electronic equipment.

In addition to the increase in Japanese tourists going overseas and the increase in international involvement of Japanese enterprises, we are seeing an increase in emigrants, although the number is still relatively small. This tendency is especially evident among the younger generation, in spite of visa problems in some countries.

I think the day is not far away when the number of Japan tourists will reach 10 million, compared with today's nearly 8.5 million. In an island nation that has no land boundaries with any other country, the number of tourists going overseas typically is more than 10% of the total population. Britain, for example, has a rate of 15%. I expect that Japan will reach the 10% level quite soon—that would be 12 million tourists—and sooner or later the figure will go as high as 15 million, judging from the country's economic strength.

Japanese Overseas Investment

As a forerunner of this movement abroad, overseas investment by Japanese enterprises has been accelerating rapidly in the past four or five years. An important factor that has helped to speed up that trend is the fact that return on investment has worsened in the area of Japanese domestic investment in land development for leisure facilities. Return on investment (ROI) has started requiring longer terms and higher costs. Residential land in a good location in Tokyo—something comparable to West Vancouver—will cost at least $14,000 per square meter. Putting up an office building in a business district costs at least $35,000 per square meter. And in a prime location that price can go as high as $140,000 for one square meter.

With these kinds of prices, investment in development of leisure facilities is shifting from urban to rural areas. But even in the countryside, prices are spiraling. In Japan now, development of a golf course with condominium and hotel facilities will easily cost $70 to $93 million, and could go as high as $117 million. Overseas investment obviously is far more effective for ROI.

Major overseas investment by Japanese companies began about five years ago. Since then, the investment has expanded or shifted from Hawaii to Hong Kong, Guam, Saipan, the Fiji Islands, Australia and the west coast of the United States. This trend is in line with the changing destinations of Japanese tourists, and is also due to the increasing possibility for high returns after development. Japan's low interest rates have helped accelerate the trend. Large corporations can get long-term loans with interest as low as 5.4% and no higher than 6.5%.

Unfortunately, some Japanese investors have been guilty of what we might call "disorderly conduct." Lacking experience and familiarity with overseas investment, their only guideline has been to get a good return. This kind of indiscriminate investment in Oahu brought about a rapid rise in the prices of land, hotels and condominiums and produced resentment among local residents. The Mayor of Honolulu, when he was interviewed on TV during a visit to Japan, spoke out against any further Japanese investment. He named real-estate agents and investors who had been buying up everything they could get hold of, even at very high prices, and that brought about tremendous increases in prices.

In some parts of Australia, as well, local residents are complaining about Japanese investors. I know of one Australian real-estate agent who put a property on the market at a price that was high even by Japanese domestic standards. And there was an Australian agent who visited Japan this January offering to sell a hotel and attached casino in Perth. The hotel has 400 rooms, and there are 700 slot machines in the casino. His asking price was $37 million. I know, however, that for that kind of money, a 1,000-room hotel with an attached casino with 1,400 slot machines is available in Las Vegas. And the one in Las Vegas is far more attractive as an investment than the single hotel with attached casino in Perth. I hear similar stories coming from Guam and Saipan these days. With the jump in property prices, it costs as much as $120 to play golf and $150 to stay overnight in a hotel.

I believe that from the lessons they have learned in the last couple of years, however, Japanese investors are more inclined to stop this kind of indiscriminate investment. They think that it is about time to consider ROI carefully, making steady investment for the long term after first doing some careful research.

Investment in Canada

Canada also is becoming quite attractive to Japanese who are interested in making serious investments. More tourists and more companies are coming to Canada. Relations between Japan and Canada are good. If Japanese investors will behave themselves by making orderly investments, they can expect a good return over the long term. No more Hong Kong; no more Australia. The kind of investment that went on there should not be repeated. Not only tourists from Japan but those from all over North America can come and enjoy the results of large-scale development of resort and leisure facilities here.

I can cite four good reasons why more attention is going to be paid to Canada. One is its political stability. Another is the stability of the Canadian economy. A third reason, which I mentioned earlier, is the public peace, law and order that prevail here. And fourth, there is an increase in Japanese tourists.

Among large investors such as IPEC's shareholders and partner companies there is great interest in development of leisure facilities in Canada, especially its west coast, as well as in Seattle, Los Angeles and San Diego. I am confident, therefore, that as long as there is no change in the Canadian government's policy toward foreign investors, there will be a great deal of leisure-oriented investment here by Japanese.

Recommendations for Investors and Tourists

In closing, I want to repeat my hope that Japanese investors will promote orderly investment instead of trying to buy up anything and everything, as some have done in Hong Kong and Hawaii. This is a theme that I keep repeating when I talk with top executives of major Japanese corporations and with Japanese government officials. What I sincerely hope and work for is investment that will contribute to local society, always keeping the people and nation of Canada in mind first.

I believe that the number of visitors from Japan will increase from 400,000 to 600,000 or 800,000 before long, and I just hope that here on the Canadian side you will be ready for them. I say this because I have been interested to see what is happening in our company's travel department. Lately they have to spend more time and energy finding enough seats on planes than they do on selling tour packages to new customers. From last December through August of this year, most of the flights are already fully booked. Now western Canada—Vancouver, Victoria, Whistler, Banff—is where everyone wants to go. For these travelers we even use Northwest Airlines via Seattle, and Delta Airlines via Portland, sometimes even having to route them through Ottawa or Montreal. We do everything we can to get them a seat. But it still is not enough, and we have people waiting in line right now. So I solicit your co-operation on the Canadian side.

At the same time, I would ask Japanese tourists to be international-minded and to do their best to understand differences in history, culture and customs of this country when they come here, so that they will continue to be welcomed by the good people of Canada.

Banking on Tourism's Future Part I

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Vancouver

While banks are regularly approached with proposals for the financing of virtually all types of hotels and resorts, it is clear that banks have a limited appetite for this business and are rather selective in view of the high risk nature of the industry. As the recent experience in Vancouver has shown, many investor groups who have built new hotels and made tourist-driven investments such as water slides in the last ten years (mainly for the wrong reason, tax deferral) have lost money and it is really the second or third buyers that have been able to achieve satisfactory results. Once hotels have established themselves and have generated an historical cash flow with proven management they become attractive banking prospects on which banks can make a good return through the provision of term financing, operating credit and cash management services.

I do not want to sound overly pessimistic about the bank's role in the tourism area, but based on historical results, banks are probably right to be cautious. On the other hand, the world in British Columbia is dramatically changing. Who would have predicted the progress and development at Whistler or the interest of foreign buyers in buying marginally performing properties and spending the necessary dollars to make them competitive in the market? British Columbia in particular will have to rely more and more in the years to come on the tourist dollar as well as the international business person travelling to Vancouver. We believe, as do our customers, that prospects are strong and many current properties may be undervalued. Having said all of that, start-up investments in virtually all areas of tourism and resort businesses will have to rely heavily on shareholders' equity and recourse to substantial parties. There is no magic in the way that banks look at loan proposals from this industry, later on in my discussions I will outline some of the parameters that banks use in financing hotels and resorts.

- Our bank views hotels not as bricks and mortar but as operating businesses to be financed with heavy reliance on cash flow to repay the loan. Bankers like a second way out on a loan and, typically, tourist related projects don't provide that; thus the reliance on the predictability of cash flow.

- Most banks prefer mature properties to new developments for reasons I mentioned previously. Banks prefer to be in the middle tier of hotel markets and not at the luxury end, and from our point of view, attractive hotels are those that are valued below $100,000 a room and can make money below $100 a night.

- Banks prefer major centres as opposed to regional and small centres for purposes of hotel financing.

- Banks look at and prefer hands-on seasoned operators and proven management as opposed to untested operators.

- Banks prefer, at least in major centres, good hotel franchises to be in place with an ability to generate a significant number of reservations within North America. The weakness of independent Asian operations is the lack of a North American reservation system which cannot always be made up through direct marketing or Asian business or tourist referrals. An exception here would be resort properties such as those at Whistler where Japanese hotel owners have the ability to source their customers from Asia and do not need the North American market.

- Banks look at historical cash flow when analyzing a credit and typically remove the Expo year from the analysis. Capitalization rates below 10% are viewed with some caution in this regard.

- Banks prefer owners who have committed cash equity in the hotel and are able to put more in if required. Some form of recourse at least for interest servicing is desirable, assuming the hotel has some risk relating to debt service.

- Banks look carefully at the requirement for renovations when an existing hotel is being purchased or refinanced, whether it is viewed as necessary for purposes of marketing the hotel or to meet city requirements. Often deferred maintenance creeps into a hotel that is for sale in view of the attempt to raise the cash flow.

- Banks watch closely the seasonality of hotel cash flows, and assuming it cannot be avoided, attempt to structure a credit that allows the hotel to carry itself through the low season.

- Banks look carefully at the extent of the food and beverage operations vis-a-vis room revenue, as some hotels are effectively glorified restaurants and bars and some are true hotels. While it is not necessarily bad to have a high percentage of food and beverage revenue, it does influence the risk analysis of the bank.

- Our bank is fortunate that there is a high level of foreign investment in the market. We attach significant value to the relationship of the foreign buyer with our bank. If the buyer is a major customer we can typically find out more about the prospective buyer than the average financial institution. The added benefit of the foreign investor is that he often brings with him significant hotel expertise. Two good examples are the New World Hotel and Pacific Palisades.

The terms and conditions that are normally applied, at least from our bank's perspective, are as follows:

- Financing is normally 60% to 65% of the value determined by a bank-appointed independent expert.
- The term is typically 3 to 5 years with an amortization of 12 to 15 years, possibly stretched to 20 for quality transactions.
- For a leased operation, the lease should extend at least 2 to 3 years beyond the amortization of the loan.
- We would take a first fixed and floating charge debenture and also an assignment of shares to be placed in the bank's nominee company to provide adequate flexibility for the bank in case of liquidation.
- We would require an independent feasibility study, not from a normal real-estate appraiser, but from a firm that specializes in this particular field. This study would include confirmation that the hotel meets all applicable standards (such as fire marshall, liquor and food act requirements) and would look at the details of historical financial results and projections.
- We would like to see existing cash flow equal to at least 125% of annual debt service including principal payments.
- We do not like subsequent charges on a hotel that we finance.
- In recent years, we have added a condition in most hotel financings that we retain the right to unilaterally fix the rate, as interest rates are critical from the point of view of the hotel being able to repay its debt.
- Pricing on loans averages approximately prime +1% with a substantial fee, but as stated earlier, given the major players involvement in the industry in the last two years, pricing has been pushed down considerably.

In conclusion, hotel and resort financing is not every bank's cup of tea. I have heard that some banks are not interested at all and some are effectively closed for business in some markets. Tourism is becoming more important and banks will have to become more aggressive as success is evidenced in the market. Based on historical results, there are reasons for banks to be conservative. We at the Hongkong Bank of Canada share most people's enthusiasm for the future of B.C. and the prospects for the tourist industry.

Banking on Tourism's Future
Part II

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The theme selected by the organizers of this tourism forum, *Mobilizing Investment for a Global Industry* struck a responsive chord for me as I'm sure it did with all of the other speakers. Simon Fraser University is to be commended for organizing a tourism conference with an emphasis on vision rather than introspection. I compliment them for their leadership and thank them for the opportunity to participate.

The topic for this session, *Banking on Tourism's Future*, sets the stage for a forward looking discussion in keeping with the theme. Only by adopting the global view of tourism suggested by this conference can we attain the managerial and planning discipline needed to ensure optimization of the dynamic opportunities ahead.

Perhaps not everyone connected with the industry welcomes this international perspective. Some may feel apprehensive in leaving behind the secure, homey perception of tourism which was in vogue until recent years.

Global challenges can stimulate parochial responses. A story is told of two trading representatives who were sent abroad in the last century by a large British merchant organization to some remote and idyllic islands in the South Pacific. After several months, the first letters arrived back in London from the two representatives. One letter said, "Please bring me home. The situation is hopeless here; the people don't even wear shoes." The other letter said, "Send shoe salesman without delay. The opportunities are unlimited." Opportunity is a state of mind.

When we look at the world tourism industry we see global opportunities based on some astronomical numbers. Worldwide, tourism spending is estimated at $2 trillion annually. That's about twice the amount spent by all governments on weapons. About 300 million people will visit another country this year—a figure expected to double by the year 2000. In 1989 the number of people using the world's airlines will equal the entire population of the People's Republic of China.

In Canada the industry involves 60,000 businesses which derive a significant portion of their revenue from tourism and hospitality. It means jobs for 600,000 Canadians, it means $21 billion in direct and indirect income, and $9 billion in taxes. Tourism is number three among earners of foreign exchange.

How does the financial community view the potential of tourism? An understated answer would be "optimistically."

These global numbers signify some globally significant trends. The Economist Intelligence Unit, a London-based research group says Americans will cease to be the world's leading tourists by the end of the century, yielding to West Germans and British.

Although U.S. border visits will remain a major part of Canadian tourism revenues, revitalized strategies will be needed to capture this growing international market. The internationalization of business and other factors such as the 10 million plan in Japan, which is a commitment by Tokyo to promote overseas visits by 10 million Japanese in order to remedy its trade balance, will influence marketing strategies. Last year Canada had 230,000 Japanese visitors—high per capita spenders with high expectations.

The dynamic momentum of the tourism industry is the reason that the Royal Bank is at this conference. It's also why we participate actively in the tourism industry. The Royal Bank is committed to participation in any business sector which promises significant growth and reward. The tourism sector meets these criteria. Our involvement with tourism is not a new awakening. It's not a trendy diversion from traditional business, nor is it corporate window dressing. For example, we help the supply side of the tourism industry through our Visa and Royal Bank Diners Club business. Through being the largest foreign exchange bank in Canada and having more than 5,000 correspondent banking relationships worldwide, tourism is a substantial element of our daily business.

Hundreds of our people have served, and continue to serve, on Chambers of Commerce and tourism associations across the country. The Royal is represented on the executive of the Tourism Industry Association of Canada, and Brian Hann of our staff is past president of the Tourism Industry Association of B.C. and one of the advisors to this forum. The government of British Columbia recently designated the Royal as a Hospitality Bank because we encouraged our staff to participate in government programs

If opportunity has attained global dimensions for the tourism industry, so has risk. No tourism facility, no matter how remote, is untouched by international economic and political developments ranging from energy shortages to exchange rates. As well as serving an increasingly international base of customers, the tourism industry must meet the test of more discriminating Canadian travellers. Canada's $2 billion travel deficit is partly the product of a buoyant economy which has allowed Canadians to travel extensively.

It will increase if Canada's tourism industry cannot offer a competitive product and demonstrate marketing strength. The key to addressing this new global dimension of risk is quality. By that I mean quality of management, quality of planning, quality of marketing and ultimately quality of customer service. A commitment to quality in each of these areas will help the Canadian tourism industry succeed in the increasingly competitive international environment where lifestyle choices are many and varied. A strong commitment will enhance the industry's ability to facilitate attractive financing arrangements. Let me comment briefly on each aspect of this quality mission and touch on the relationship of quality, risk and reward.

First, quality of management. Resource recruitment, professional development and vocational training are critical problems in the industry and a concern of the financial community. In its 1988 report on the lodging industry, the consulting firm of Laventhol and Horwath suggest that the pressure of maintaining high operating levels during the recent economic boom has highlighted the "shortage of qualified and willing personnel" within the hospitality sector. High turnover rates preclude successful staff training and development programs. They cause burnout because management often does double duty to compensate for staff shortages and motivation problems. The scene discourages new employees. These conditions are not conducive to quality of management. They do not inspire confidence in the ability to manage risk.

Next, quality of planning. Planning has been a systemic weakness of the industry, but there are some promising signs. On a national level, for the first time, we will see a tourism development plan produced co-operatively between Tourism Canada and the Tourism Industry Association of Canada. This national strategic plan is welcome, but very long in coming. At the operating level, however, planning is often a luxury subordinated to a variety of pressing demands. Many businesses restrict their financing options through the shortcomings in their planning. The cumulative effect of this inadequate planning in the industry is more risk.

Let's turn to quality of marketing. The discipline of firm sales objectives and strategic positioning is not practised in much of the industry. Instead, opportunistic or reactive marketing is broadly entrenched and categorized as creativity. If you're a tourism operator, does your market plan currently contemplate such factors as the limited vacation time of an increasingly entrepreneurial society? Does it address the expanding environmental consciousness among the public and the growing return to family values? Are you still following cycles of high profile marketing activity followed by periods of inertia?

In this regard I note with interest comments made last year by the Assistant Deputy Minister for Tourism in British Columbia. On the subject of sustained marketing he said, "You have to stay with it, if you don't stay in the market you probably won't notice the difference the first year, but by the fifth year they've forgotten you." Continuity in share of mind or mental shelf space must be a planned investment.

And finally, there's quality of service, critical to both our industries. The commitment to quality of service cannot be cosmetic. It has to form the strategic underpinning of a business. There are some compelling examples of quality of service contributing to strong growth. Four Seasons Hotels is the standard bearer. This company has carved a niche in the luxury end of the travel market through establishing internationally recognized standards of customer service. The Four Seasons guest is treated like a priceless asset and the company's financial performance validates the wisdom of that approach.

Another good example is Discount Car and Truck Rental. This Canadian success story has grown from one station to over seventy franchises in just eight years and is currently entering the British Columbia market. The business was built on a unique service principle—bringing the vehicle to the customer's door. Elegant, simple and profitable.

Again the commitment to quality can't be cosmetic. It has to be structural. Business sometimes falls prey to the mistake of assuming that "lip service" equates to doing the deed.

When the book *In Search of Excellence* was published in the early 1980s, I'm sure you all remember how, within months, virtually every annual report talked about how companies were achieving excellence. One has to wonder how, with all that excellence, we managed by 1982 to achieve the biggest recession since the depression of the 1930s. Or it's a little like the corporate president who attended a seminar on corporate culture accompanied by his vice president of personnel. So impressed with the benefits of this new concept was he, that he turned to his vice president and said, "I like this idea of corporate culture and I want one in the company by Monday." Quality of customer service is not an overnight goal but a long-term strategy for success. It's people focussed and demonstrated.

When bankers sit down to talk to clients in the tourism sector the subject is money but the theme is risk. Lenders can more easily accommodate the industry's debt/equity ratios and seasonal cash flows if they see prudent assessment of risk, sound management, assertive marketing and disciplined business planning.

I know there's some feeling within the tourism industry that the financial community is not attuned to the special nature of the sector or its particular business, but I can assure you that there is no bias against supporting tourism or any other high-potential sector. We are in business for customer service, profitability and growth—goals familiar to tourism. But like your business, ours has its share of myths.

One of the most durable myths involves our receptiveness. I read recently where the president of the Canadian Federation of Independent Business, John Bulloch, said that small business loan decisions are made by "Jack-of-all-trades bank managers" on the basis of "balance sheet formulas and collateral rather than business plans and projected cash flows."

Well I know, and I suspect you know, that this is an outdated perception. But what's important is that the myth is still there. You almost invariably find a pattern when you read small business success stories in magazines. As an example, I recently read about a woman here in B.C. who has built, in five years, a highly successful business. She has twenty employees and provides catered gourmet meals to movie crews operating around the province.

She is quoted as saying that when she first approached the bank with her idea "they laughed in my face." Stories like this are thankfully rare, but they add to the legend that says every successful business began life by being tossed out by a bank manager. Not only is that a myth, but with 70% of the new jobs in this country over the last two years coming from businesses with less than twenty employees, it would be corporate euthanasia on our part to be unwilling to listen to innovative ideas.

The above notwithstanding, the best answer from a bank for some fledgling businesses is "no." Our shareholders and customers entrust us to exercise this kind of judgement when necessary. But that doesn't mean there are not some concerns that have to be addressed in many successful financial discussions. There are often complex and conflicting perceptions on either side of the table. In many situations involving the tourism sector, lenders encounter some or all of the following concerns:

- Debt servicing restrictions based on seasonality;
- High risk debt-to-equity ratios;
- Insufficient cash or an absence of cash flow contingency planning for operations and projects; and
- Lack of management expertise in tourism and limited understanding of risk by operators.

From the operator's side, we are sensitive to what we sometimes perceive as a view that our lending criteria are rigid and uncompromising. Operators often lack the resources, including lead time, to address opportunities for minimizing risk through planning. Some have limited experience dealing with cash flow lenders and are unaccustomed to their unique requirements. One finds, on occasion, a difficulty for operators to segregate their thinking about the tourism business as distinct from asset speculation, especially land. The principles of interbusiness cash flow support are not always appreciated nor is there always a willingness to accept venture capitalists as owners.

But much is being done, and I have some cases to illustrate. At times we've been challenged on our obligation to be more helpful to assist the business operator in understanding the nuances of packaging and presentation that are so important to financing discussions. I believe the Royal has become more service-oriented and consultative in that respect. Deregulation has increased the stakes in our industry and the tourism sector will be a beneficiary of that process.

If the risk is prudently addressed and resources allocated to meet reasonable contingencies, some rewarding relationships can result. I'd like to touch on four brief examples in the Royal Bank's experience.

The first example involves Stay-N-Save Motor Inns Incorporated, one of this province's growing success stories. We had a three-year relationship with the company when it made the decision to expand to a new location. Bridge financing for the full land purchase price was arranged. Once the design feasibility review was completed, however, it was determined that additional financial support for the new motor inn project costs would be needed to supplement traditional bank financing and owners' equity. The customer had the track record and the management discipline to give us the risk confidence. So the Royal Bank Capital Corporation was invited to participate through a combination of equity and a subordinated debt package established to minimize debt burden in year one through interest accrual and a moratorium on principal. Royal Bank Capital serves the investment market in the $1-million to $5-million range for well-established companies with a good track record, strong management and high growth potential. Our interim construction loan, pending mortgage takeouts, was put on a revolving basis to maximize surplus cash generated from the two properties.

Our customer invited a quality restaurant operation to lease space in both properties. We worked with the restaurant owners and the motor inn principals to structure an operating facility as well as a combination of equity and subordinated debt underpinning by the motor inn to the restaurateur.

In this way, liquidity and stability were established for this complementary business alliance to operate and build for the future. The rewards are there for all the players. After less than a year we have entered discussions with Stay-N-Save regarding expansion, perhaps through the establishment of a franchise program.

In the second case, a holiday resort sought financial support to become a year-round business. The company had strong diversified management but presented a special risk because it had experienced serious cost overruns. Their requirements from us were to support operating expenses, off-season term loan payments, and expenses related to expansion as a year-round resort.

The solution illustrates a co-operative approach to the management of risk. We provided an operating loan, a commercial mortgage and a term loan under the Ontario Tourism Redevelopment Incentive Program. The owners increased their equity to cover operating overruns and put satisfactory controls in place. Security for credit support established is based on mortgageability of assets employed. As a result of this shared approach to risk management, the customer is well on the way to establishing a year-round clientele.

The next case involves a theme park which has implemented a successful expansion program over twenty-five years. This case illustrates how innovative risk management can grow with a business. Management here is well-respected in the industry for its customer service and attention to quality—again, the essence of our business. Each year it reviews with the bank its markets, business and financial achievements, as well as the plans for new services, including projected reinvestment of earnings and preliminary financing support requirements. This continually progressive relationship has produced credit facilities which have evolved on a 25% operating and 75% term split with Canadian, U.S., Euro-U.S., bankers' acceptances, variable and fixed-rate options and credit conditions which recognize seasonal cash flows. Through sound management and disciplined planning, a business can access a rewarding array of financing options.

My last example involves a customer operating a charter air service. A foreign company with summer season charter air service approached the customer to employ its equipment in its off season to optimize utilization. Our customer, who has an outstanding reputation, requested credit facilities for start-up and operating purposes. An appropriate arrangement based on cash flow projections and a reasonable contingency level was established to complement the owner's equity injection. Security centered on irrevocable stand-by letters of credit issued by the foreign company's banks, since the operational risk was primarily one of aircraft reliability.

As a result, the business synergies and complementary seasons worked to everyone's advantage. The operating support is funded from cash flow and the project costs and assets are covered by the owner's contributions.

The foregoing are actual cases, but these types of success stories stimulate our thinking in terms of other financing options we may see evolve. These might include:

- Group financing—possibly involving syndicated approaches by integrated businesses within a municipality.
- Seasonal synergy—operators with sequential seasons could work out tandem arrangements for financing to maximize respective growth potential.
- Insured financing—this could involve risk insurance by private or public entities to decrease costs associated with risk.
- Private tourism bonds—an equity issue open to institutions or individuals, well-managed and dedicated to high-growth potential tourism businesses.

Few speeches conclude without at least one call for government action. At a time of deficit reduction, advocacy for new spending programs is ill-timed. This does not preclude, however, the judicious application of tax treatment to encourage well-equipped financiers to invest in tourism. Programs at the federal and provincial level to foster managerial excellence in the industry will also help ensure that the full potential for tourism in Canada is realized. And, as suggested earlier, the industry has to have a voice at policy tables of government fully commensurate with its importance in the economy.

And finally, I strongly believe that there is room and need for more teamwork in the industry. We know that the structure and geographic distribution of the industry militate against this, but those are obstacles, not impossibilities. All of us allied to the tourism sector can derive a net benefit from the successful achievements of individual businesses. Conversely, there is an opportunity cost which all of us bear if there isn't a full lateral commitment to innovation and quality.

The finance industry has its role to play in this mission. One of the best sources of innovative financing ideas is conferences such as this and I'm looking forward to an exchange of views following the presentations.

As a banker I welcome the learning opportunity offered by this session. The ideas acquired here will strengthen our ability to actively participate in financing this exciting business to jointly minimize our risks and maximize our rewards. We are banking on tourism's future.

Banking on Tourism's Future
Part III

G. W. Kyte
Vice President, Internal Audit and Program Evaluation
Federal Business Development Bank

On behalf of the president of the Federal Business Development Bank (FBDB), I want to thank the Advisory Committee for its invitation to attend. It would have been his preference to be here himself had not other commitments prevented this. For my part,I am very pleased to be with you to take part in an initiative that has such an opportunity to make a significant contribution. A contribution above all to British Columbia, but perhaps also with interesting spin-off effects for other parts of Canada. I am sure any good ideas generated as a result of this forum will be quickly adopted elsewhere for we're told that success is not an orphan but has many willing parents.

There is no question that when we talk about tourism, we are talking about an industry with opportunity. Figures on the future of this sector are familiar to us all. The World Tourism Organization (WTO), predicts spending on international and domestic travel will nudge $4 trillion, that's four thousand billion, by the end of the century. That amount represents a four-fold increase in just twenty years. These forecasts are backed by the Hudson Institute which estimates that tourism may comprise the world's most important economic activity by the end of this century. Small wonder it's getting our attention!

This is a rosy outlook to be sure—but to capitalize on the future we must be prepared to invest today—and that is what we are doing here—investing our time and energy to capture a good share of tomorrow's benefits. For it's always a good time to exchange ideas and to develop new ones. It's always a good time to be doing the groundwork. That way we are prepared. That way, when the signals are right, when it is time to introduce to the marketplace the latest innovation, the new thrust that will capture the buyer's imagination and pocketbook, we're ready.

But what does the word *innovation* really mean? Whether we consult the dictionary or Drucker, we conclude that to innovate is to introduce something new—to introduce change. But this forum is interested in more than that, it is interested in successful change, in innovation that is going to make a positive difference in the marketplace, and it is in this connection that I have been asked to tell you what my organization has been doing that is innovative in the field of finance. I'm also going to outline for you what I understand the nature of innovation to be, its characteristics, the conditions under which it flourishes, and I'm going to tell you about how the bank tries to encourage these conditions in its clientele. I'm also going to tell you about how we have gone beyond simply financing good ideas toward providing some of the non-financial help that every enterprise needs if it is to be truly successful.

So what are the characteristics of innovation? What are the conditions that encourage it? I'm going to refer again to business writer Peter Drucker and his book *Innovation and Entrepreneurship* for the answers to these questions, and I'm going to bring to your attention three of his conclusions:

- First, innovation is not usually the result of luck or random chance. It's more likely to be the result of hard work, the result of a systematic review of opportunities, drawing on a good knowledge of a particular sector.

- Second, successful innovation is most likely to be built on existing strength, not on an entirely new endeavour. For example, it is not unusual for property developers to introduce innovative approaches to tourism. Perhaps it's a new approach to motel financing that enables them to provide budget accommodation—much in demand by the travelling public; or perhaps it's turning a ski hill into a year-round attraction. The innovation in both cases is built on a basic knowledge of, and strength in, property development.

  By the way, the bank is particularly active in the business of ski hills. In British Columbia we have financing of $22 million outstanding to nine operations. Among these is our investment in Blackcomb Mountain where our involvement dates back to the founding of this endeavour in the late 70s. We understand this ski hill is the leader in British Columbia in terms of number of skier visits annually, and with the continued development of the benchlands, it is apparent that the bank's initial investment and support has stimulated customer spending and subsequent development far beyond that first amount.

- A third point that Drucker makes is that the innovative idea must spring from real forces in society and in the economy that stimulate its blossoming at a particular moment. Put another way, if the idea isn't seen by the customer as filling a need, there won't be many takers.

Before I get down to the specifics of what the bank has done, and is doing, in this area of innovation, I should introduce you a little more to my organization. The bank has been in existence, in one form or another, since 1944. In 1975, it was made a Crown corporation, endowed with its present name, and given an expanded mandate as follows:

- It is expected to provide financial assistance to viable businesses when money is unavailable from other sources. (Others might decline for many reasons, including location or nature of the assets.)

- In addition to financial assistance, the FBDB is expected to provide training, information and counselling to strengthen management ability.

There are no regulations that govern the size of loan or amount of investment the bank can make, nor are there restrictions on the business location as long as it is in Canada. Nevertheless, the bank is expected to put particular emphasis on the needs of small- and medium-sized businesses and those in rural locations. It is also expected to break even on its lending and investing activities. Its management services, on the other hand, are financed approximately two-thirds by annual government appropriation and one-third by user fees.

Each year across Canada, the bank authorizes 5,000 to 6,000 new loans with a total value of approximately $900 million. It has a loan client base of approximately 16,000 customers and a $2.5 billion commitment. Approximately 20% of the bank's business is done in British Columbia where one loan in every four goes to the tourist industry. Loans outstanding to the tourist industry in British Columbia thus total $125 million, and $40 million in new loans is authorized annually.

On the management services side, we do 9,000 counselling assignments annually. Last year 75,000 people attended our training seminars, workshops, or courses, and more than 70,000 people contacted us for information on the various government programs available to business.

So in total, across Canada, we touch 200,000 business people or potential business people annually; one in five of whom lives in British Columbia. We believe that among these there are many who are stimulated to do something new, something innovative. We believe that the bank has supported this drive in a positive way.

What else does the bank do for innovation? Most of all, we try to make the bank a catalyst, bringing together the business person who has the idea, the financing that is required, and the management skill that is so essential, thus ensuring the three legs of support for business success are provided: ideas, money, management skill. We want to do this in a way that meets all the conditions needed for an innovative reaction to occur.

When it was created forty-five years ago, the bank was set up to ensure that term loans would be available to business in post-war Canada, something that was not then the case, as most business lending was done on a demand basis. Filling this gap could in itself be considered innovative, but better than that, if we counted the number of businesses to which the bank has made loans, we would be counting in the hundreds of thousands. These are the true entrepreneurs who take the risk and look to reap the rewards, entrepreneurs who are independent by nature, flexible in approach and able to translate ideas into reality with a minimum of fuss. If the bank's only claim to innovation is its support to such innovators we will have accomplished much.

We have always tried to adapt our support to the needs of the market, often leading the way and ensuring our clients were well-served so they could do their job. For example, when the bank began, some years ago, to finance charter aircraft businesses, often closely associated with remote fishing or hunting camps, and very much in evidence here in British Columbia, it was virtually alone in the field. Since then, based on the bank leading the way, other lenders have concluded that they too can successfully do business in this field, making financing easier to obtain. This has not been an unusual role for the bank—finding a gap in the market, filling it virtually alone for a period, then seeing others come and join it once it is obvious that there is profit to be made. Surely this is the role of a development bank.

A major preoccupation of the bank has been to ensure that business people have the knowledge and skill they need. I know this is also a preoccupation of the tourist industry. When an outstanding chef opens a restaurant, success is not assured—you might even say the problems are just beginning. While this individual might be exceptional in the kitchen, many new and likely unfamiliar skills will need to be acquired: an ability to deal with creditors, to keep books, and to manage personnel, for example. In recognition of this the bank started, almost twenty years ago a series of one- day seminars to teach such how-to skills as time management, marketing in the food service industry, effective cash management, and motivating personnel, to name a few.

For those who want a greater depth of training, we make available course material to community colleges for thirty hours of classroom instruction in an even wider range of business topics.

We hope in this way to broaden the entrepreneurs' knowledge of business, to help them manage events and perhaps free-up for them some time to reflect on their businesses and on their opportunities.

Another service we have under our management services umbrella is our CASE program, *Counselling Assistance for Business*, which is really a range of services:

- It includes a roster of retired business people, just under 300 in British Columbia, available on a consulting basis for the business person who wants to draw on extensive experience to help solve a problem or study an opportunity.

- It includes our financial planning program designed to package the business proposal and put it in its best light, and thus ensure the financing requirements will be met under favourable terms and conditions, if necessary, by a consortium of lenders. The bank, in fact, could well be a participant.

  The bank will, if it is so desired, search out other lenders for entrepreneurs who will thus be free to concentrate on other priorities while at the same time being provided with a good level of confidence that the financing will be found.

- The third of our counselling services is strategic planning, a process that, under the guidance of a bank officer, gets business people to examine what they are doing well today so they can project this into the future and identify what they'll be doing in one or two years down the road, working toward ensured success.

All our services are available on an individual basis. That is, you don't have to have a loan from the bank to use CASE, to attend a seminar or to take a course. On the other hand, they are certainly worthwhile in combination, so we are not at all reluctant to recommend to our loan customers, for example, a counsellor who could particularly help them, or a seminar that might aim at a specific situation.

In fact, we have combined counselling and training into a new business service, the Community Business Initiative, or CBI, which offers to groups of thirty or so business people over a twelve-month period, forty hours of group workshops on business topics of their choice and forty hours of one-on-one counselling. We thus ensure that the gap is bridged between classroom theory and on-the-job practice.

We believe that one of the significant benefits that will be produced by these CBIs is the new network of introductions that results for the participants who are then able, through discussion among themselves, to deal with common problems and generate new ideas. In British Columbia we have completed eight such initiatives, we have another eight underway at this moment and five are in the planning stage. The comments we get from those who take part are very positive and the drop-out rate is very low, which itself says a great deal.

Through these services we try to encourage knowledgeable review along with systematic analysis, key elements in the search for the new and the innovative.

The third characteristic of innovation that I mentioned earlier was that the time had to be ripe for the customer to take advantage of the offering. To ensure that potential clients are aware of what it has to offer, the bank uses the normal means of publicity for its services and activities. FBDB also has its own publication called *Profits* which is distributed to 840,000 businesses in Canada on a quarterly basis. In addition to providing timely and practical advice and information of interest to the entrepreneur, this quarterly highlights the various services available from the bank, with particular emphasis on any new services.

One such new service is in *Profits* itself and it is our financial want-ad service called, appropriately enough, Introductions. This is, in effect, part of our financial matchmaking service where the bank acts as an agent, bringing together potential investors with entrepreneurs in need of equity. An example of the effectiveness of this service is the case of a resort operator in the Interior of British Columbia who required capital to continue the development of his business. Through use of the bank's Introductions service, he was put in touch with several potential investors. Such successes tell us that the time is right for a service of this nature.

A presentation of this type can only provide the broad lines of what we do. But be assured that we will be available today to answer questions that come to mind. In addition, we have sixteen locations in British Columbia where our staff is available to help.

In closing, I want to tell you that the bank's slogan "Backing Independent Business" is intended to reflect not only our support for the day-to-day business operation but also to suggest through use of the word *independent* the freedom and flexibility needed to ensure successful innovation.

Questions and Answers:

Question:

May I address two questions to Mr. Glynn. First, I heard you saying that the loan ratio was generally in the 60% to 65% range. Do you look at the remainder coming solely from the owner's equity, or do you also look to some form of mezzanine finance? Secondly, I was also a bit surprised to hear that he doesn't allow for a valuation by a real-estate appraiser. Can I question why? I would like to add that in our appraisals, we do take into account the business and the fact that it is an ongoing concern.

Mr. Glynn:

I think banks generally view hotels and resort properties as being very specialized, and they don't necessarily fall into the normal criteria. The comparables of per-square-foot land costs, and so on, I think become less meaningful. Management issues, cash flow, reliability, all of those things require, in our eyes, a study from someone who is very familiar with that industry, and I think not all real-estate appraisal companies offer that specialty.

Mezzanine financing behind a bank's two-thirds loan, for example, would typically be discouraged. Because hotels are sold on a multiple of cash flow—that's how they're valued—they can probably carry only a 65% loan. Debt behind that cannot be serviced out of cash flow.

So if you have a subordinated debenture that looks like equity, and it really is equity, that's one thing. But if the holder in second position needs to be serviced out of cash flow and isn't being serviced, that puts the primary lender in a very poor position. So we encourage real equity.

So 65% happens to be just about the right number in most cases. I'm not saying that we're driven by a formula, it's just that it's simply in that ball park where the amount of debt should be.

Question:

I have two questions for Mr. Kyte please. You said that the bank was granting about 5,000 to 6,000 loans for a total of $900 million, which puts the average loan at the hefty amount of about $200,000?

What criteria would you apply in granting those loans, particularly in the area of personal financing and collateral? And secondly, what would be your rates and terms versus others which are prevalent among the private bankers?

Mr. Kyte:

As far as credit criteria go, we examine management, earnings ability, the assets that are provided to support the loan, and of course, the owner's equity. And of course, the ability of the business to support its operation through current financing. We also look at each proposal on a project basis. That is, it's not formula lending, no matter where the business is, and no matter what business they're in. If they can show that there is good management, that earnings are going to pay the debt, that the owner has a reasonable participation, and that the working capital is supported, then we'll go along with the proposal.

As far as terms and conditions go, they're similar to those offered by other lenders with the exception that our rates might be a shade above, perhaps .5% to 1%. We are lending to smaller proposals (as you can see our emphasis is on smaller- and medium-sized businesses), but otherwise the terms and conditions are similar. As far as amortization, it could be five years, ten years, fifteen, depending on the type of assets and the life of the assets that are being financed.

Follow-up Question:

What amount are you looking at for personal financing compared to, $200,000, for example? Would you require the same amount from the operator who wants to borrow from you?

Mr. Kyte:

No, it would depend on the earnings ability of the business. If it's a start-up, I imagine we'd likely want to start off perhaps with the same ratio that Mr. Glynn mentioned. We'd perhaps lend two dollars for every dollar the owner puts in. If it's a proven, established business where we know what the earnings are, whether there's any equity shown at all would be beside the point, because you know the cash flow is there to cover the debt commitment.

Question:

Mr. Chairman, when I listened to Mr. Ogawa this morning, he pointed out the huge success of Japan in all fields, especially in hotels, because their interest rate is only between 5% and 6%. With that kind of interest, we could be doing tremendous business. The whole world would be coming to Canada. Can we get the bankers together, the federal and the other bankers, to see what they can do to help us get that interest rate down? Otherwise we can't make those big payments, the mortgages, when they're 12%. Is there any reply to that?

Chair (John Taggart, FBDB):

Being a banker myself, I can relate to exactly what you're saying, and being an economist I can also relate to it.

All banks operate as a business. And if the world market, or the Canadian market financial system demands a particular cost to funds, and if we attempt, as a banking industry, to lend below that cost of funds with a slight premium to cover off the operating costs, we would be out of business the same as anybody else. So, it is a major problem, but I think that it's a problem that is addressed more to the political sphere than to the banking community.

Panelist:

The banks like lower interest rates. More projects work. When you look at the numbers, you can finance more things if you build in an 8% interest rate versus 14%. Furthermore, all the carrying costs and all the non-performing loans are much better serviced at lower interest rates than higher interest rates. So the banks are not benefiting from higher interest rates. We're takers of a price determined by supply and demand, and we simply have to be in that market. But we're not in a position where we gain because there's a 13.5% prime rate.

Question:

I have a two-part question. One, how is the banking institution geared toward working with the local investor, (perhaps even bringing in the outside investor and forming some kind of a synergy or merger) so that the local investors can stay in business and compete in this market successfully? That's number one.

Number two, we local investors are also being innovative, but how can we get the bankers to recognize this? How do we get the bank to recognize that there may be an undervalued asset, a portion of which could be considered part of equity?

Panelist:

The second half of your question is really, how do you support value? From the point of view of most lenders' and bankers' point of view, (who look normally for the steady stream of income) the value will be established by the cash flow. That's generally the case. The cash flow must demonstrate what the property is worth. The lender is depending on income every year to pay the debt and the income will support the valuation.

Don't forget, appraisals are only opinions from human beings who may not always be right. In a capitalist system we say that the market creates the price.When you have a willing buyer and a willing seller that's usually at a point in time what something is worth. Banks believe in that and have a great deal of difficulty saying that this sophisticated vendor and this sophisticated purchaser got together and negotiated a price that isn't the real value.

The difference in this market, compared to 1981, for example, is that we now have people with real equity in the property, and therefore any kind of downturn will be mitigated by the fact that all this product won't be shoved on the market by banks who are stuck with things that they don't want to be stuck with.

So we try to be flexible in our minds and say, "Yes, this is really worth more and has more potential than the vendor showed it had. But nevertheless, it's hard to beat the price for the value." But we're opposed to taking a higher amount because someone says it should be higher.

Mr. Palmer:

I'd like to comment on the other part of your question about the opportunities. I hope everyone here has heard about the Canadian Opportunities Investment Network (COIN). For $150 you can get yourself an opportunity and take a look at it. There are lots of them in Canada. I offer that to you.

Second. A lot of our investors, both foreign and domestic, have become more regular participants in associations such as the Tourism Industry Association of Canada and the Industrial Developers Association of Canada. This province has one of the most active groups in both those areas and if you're not tapped into those two groups, you're missing out on glorious investment opportunities, whether you're a domestic investor or a foreign investor.

Panelist:

Let me respond to the issue of foreign investors with money pushing the locals out of the market. Some of the foreign investors, such as the Japanese, like a finished product that's proven to be successful; they don't necessarily want to be builders of hotels or resort properties. The locals can take on the risk that the foreign investor isn't willing to take on. That is the development risk. There is room to use local experise to fill that gap. If you have a finished product with 80% occupancy and you can value it at a 7% capitalization rate, then sell it to the foreign investor and move on and develop something else, or turn around a property that the foreigner isn't prepared to look a becaue it's got problems.

Question:

Why is the Japanese bank interest rate lower than ours? How can they get away with that? How does it work?

Panelist:

The answer may be surprising. They're not lower than ours. If you want to borrow Japanese yen at our bank, we'll lend it to you at 5%, but it's a different currency. You would be taking a Japanese-yen risk. If the yen appreciates, it's going to cost you more Canadian dollars at the end of the day. If you believe economic theory, the market arbitrage eliminates the difference in currency appreciation versus interest rate.

There are other factors, such as the minimal borrowing that the Japanese do, because I don't believe that they run a deficit. In fact, they have major surpluses, do they not? And inflation, as I understand, is extremely low. And these are two pressures on the Canadian interest rates and North American interest rates that aren't present in that economy.

Question:

I have a question for Mr. Palmer. I understand that the spreads on interest rates between what the bank charges on loans and what it pays on investors' investments into the bank has increased from the three to four points range up into six to seven points in recent years. I'm curious as to whether, in fact, that's true, and to what extent that situation has been caused by the amount of bad loans that have been made by your bank and others in South America, Mexico, and other countries. And if that is the case, can we see the spreads returning to more normal levels in the future?

Mr. Palmer:

First of all, the spreads have actually gone the other way. In the mid-seventies the spreads in the banking industry before our corporate clients learned about cash management were quite exciting for the bankers. They were 8%, 9%, 6%, 7%. Regularly you had lots of spreads in that category. In recent years they were in the 3% and 4% range because in the corporate side, as well as the personal side, people don't like leaving free balances idle with banks any more. I think it's the reverse.

When I first started in cash management back in the early seventies, we really bit our tongue when we offered to pay interest on corporations' demand deposits because that was cutting our own throat. But if you didn't do it, somebody else did. In terms of the impact of foreign currency loans, I can tell you from an internal accounting point of view that in B.C. those bad loans are paid out from our corporate banking profits. We don't rob Peter to pay Paul.

Question:

Mr. Glynn, in the Vancouver situation, and in light of recent activities, if you were looking at a hypothetical first-class hotel in downtown Vancouver, what sort of cash- flow coverage ratios would you look at? And I was wondering if you might address the same with regard to capitalization rates?

Mr. Glynn:

The text book on the shelf would say 125% cash flow coverage. That's what young bankers are taught to look for. I think that the reality is that, in a fifteen- or twenty-year amortization, if you can get 110% to 115% coverage, you're probably in reasonably good shape. As capitlization rates drop, even at my magical 65% average, which varies depending on the deal, it's very difficult to find cash flow.

If someone pays $40 million for a hotel at a 7% capitalization rate—which means that it has about a $3 million cash flow—and you put 65% on it, which is roughly $28 million or so, it's very difficult to get 125% coverage. So as capitalization rates drop, the coverage over debt service has to shrink.

So what we look for in those situations is strength of management, reliability of the cash flow, covering the interest rate risk, in other words, trying to fix some of the rates. We look at how much cash the investors put in, and how much more they have if there are some problems, and that sort of thing. But the coverage is getting thinner because of the reality of the market—you can't get those juicy cash flows. The only area where capitalization rates aren't low is in the low end of the market, the strip joint hotel. And that's something that isn't of interest to us. You probably have a 15% or 18% yield, and you have lots of cash flow, but we're not interested in that business.

Follow-up Question:

You referred to a 7% capitalization rate. Is that something that Hongkong Bank is comfortable with these days?

Mr. Glynn:

No, we like 15% capitalization rates, because we have 15% interest rates. Obviously the higher the prices people pay for hotels, the more the bank has to look into the deep past and say, "Well, three years ago that hotel was worth half of what it is today and nothing's changed." Are we going to go back to where we were three years ago? We're going to be under water if we finance two-thirds of it.

Lowering capitalization rates is tough to swallow, but it's the market. If you can only obtain a 7% yield on a hotel and you have to borrow at prime plus one and the prime is 13.5, the investor has to support that loan. It just doesn't work.

Our building was sold to a Japanese investor and the caplitalization rate was below

6%. You might think that's the easiest thing in the world, to finance the Hongkong Bank Building. But it's very tough when it's a 5.8% capitalization rate and you have current interest rates.

Question:

You've been very candid with us about your policy of short-term cash flow, as a short-term cash-flow lender. That leaves the field open to others. Are you considering, or will you consider, a longer term financial relationship for loans like this? Where your internal rate of return over ten years, perhaps, is acceptable to you, will you take less at the front end? How are you going to approach this problem?

Mr. Glynn:

I just want to comment. I didn't say we were a short-term cash-flow lender. We look at hotels and resort properties with their values being driven by the cash that they generate, not by the bricks and mortar.

We are not in the same business as FBDB in that we're not interested in being an investor. We don't want to own hotels. We want to be the banker to the hotel, but ultimately get our money back. We have depositors who expect to have their deposits serviced monthly, and in the same way, we expect to get our interest paid regularly.

So if you're suggesting that we take 5% in year one, 7% in year two, and so on, that's something that is not, in our view, banking. It's some other form of finance, which we're not interested in at the present time. And if a proposal has to be done that way to make it work, then it's too risky for us.

Mr. Kyte:

Just to comment from the FBDB. While we invest occasionally, the FBDB is mainly a lender. But I believe yesterday our Minister outlined a possible financing instrument that he was looking at, which is venture loans. I believe it would address the sort of situation you mentioned where repayment and interest would be deferred farther down the road, until the real value of the investment came out through the earnings.

Other Sources of Capital

Joseph M. Barak
Asset-Backed Securities Group
ScotiaMcLeod Incorporated
Vancouver, B.C.

A strong trend is emerging in both international and domestic capital markets which is having a significant impact on traditional financial intermediation. A financial tool described as *asset securitization* has become a new and profitable method of debt financing. This new technology is revolutionizing the financial services industry, as institutions who were previously unable to access funding due to capital or credit constraints now have the capability through the sale of assets.

Securitization can be broadly defined as a process of disintermediation whereby high-cost producers of credit are displaced at a lower cost by institutional investors and the public/private capital markets. The resulting cost savings are divided between the issuers of the securities, institutional investors and the borrowing consumer. During this process of securitization, assets are converted from traditional loans to securities.

These securities, commonly known as Asset-Backed Securities (ABS) are structured by pooling a portfolio of assets such as loan receivables, and through a restructuring process are converted into a tradeable security. The underlying cash flows from the individual assets either directly or indirectly support the coupon payments to investors.

Because the underlying loans or receivables in any ABS pool are subject to default, all transactions employ some type of credit enhancement. This is achieved through over-collaterilization of the assets, letter of credit, surety bond or by the use of a third party to guarantee the credit of the assets.

In an asset-backed securitized transaction the bondholder's recourse is limited to the assets themselves. There is no recourse to the issuer, as the assets have been sold from the issuer's balance sheet. Therefore, investors must be confident of the structure and credit characteristics of the security to provide protection in the event of default.

Status of Market

The United States is the largest participant in the securitization arena in terms of type and volume of assets securitized. Since its inception in early 1985, the public ABS market has experienced tremendous growth. As of March 31, 1989, the market comprised 128 public issues from 53 different issuers with aggregate outstandings of over $41 billion. Mortgages were the original asset to be securitized and still comprise the majority of the market with over $750 billion of mortgage-backed securities outstanding.

The type of assets being securitized are numerous: non-insured mortgage loans, consumer loans, credit card and auto loans, construction loans, student loans, boat and recreational vehicle loans, equipment leases, junk bonds and commercial paper. Obviously the list is only limited to the assets on an issuer's balance sheet and the imaginations of capital market practitioners.

Thus far credit card receivables are the biggest, fastest growing segment of the non-mortgage asset-backed security market. Credit card receivables began to be publicly securitized in January 1987. Seven credit card transactions came to market during that year representing over 23% of total ABS issues. In 1988 credit card receivables became the primary form of non-mortgage assets to be securitized as issuers brought 18 transactions to the market for a total of $7.4 billion, comprising 45% of total ABS volume. Thus far in 1989, 14 ABS transactions have been completed with 4 of these being credit card backed securities.

The most prolific issuers thus far have been the U.S. banks. First, they have the most diverse portfolios of receivables and because they are heavily regulated by the government they are extra cautious in their lending practices. These institutions are finally beginning to focus less on asset size and more on capital management. Banks' balance sheets are always under pressure as government regulators carefully govern banks' capital levels. One of the easiest ways for banks to maintain this required liquidity is through the sales of their assets. In addition, by selling assets, banks are able to remove certain asset/liability matching risks from their balance sheets.

Another factor which banks will focus on significantly in the future is the Basle Committee of the Bank for International Settlements (BIS). These proposed capital adequacy guidelines will impose more stringent capital policies on all banks. Under these risk-adjusted guidelines, banks will be forced to increase their capital to assets ratio to 8% by 1992. An obvious method of achieving this ratio is to securitize assets.

Canadian Market

In Canada the only asset-backed securities market which is active and trading at this point is National Housing Act (NHA) Mortgage-Backed Securities (MBS). The current market is over $1.8 billion outstanding with approximately $100 million of new product issued monthly. An MBS is a monthly pay-modified pass-through security which represents an undivided interest in a pool of NHA- insured first mortgages. Canada Mortgage and Housing Corporation (CMHC) provides mortgage loan insurance on all individual pooled mortgages as well as providing an unconditional guarantee of timely payment to MBS investors. CMHC which is a Crown corporation has the ability to provide this guarantee as stipulated in Section 4 of the National Housing Act, which provides that: "Every right or obligation acquired or incurred by the Corporation under this Act, whether in its name or in the name of Her Majesty, is a right or obligation of Her Majesty." Other ABS explored in Canadian markets include lease-backed securities and non-NHA mortgage-backed securities.

Advantages of Securitization

Issuers have several incentives for issuing asset-backed securities. Issuers are able to raise funds at a cost equivalent to the credit of the ABS, which if higher than the credit rating of the issuing institution means a more cost effective means of raising funds than by the traditional methods of on-balance-sheet debt financing. By securitizing the asset the issuer is also able to remove any interest rate risk it incurs by having the interest sensitive assets on its balance sheet. Financial institutions often fund fixed-rate loans with floating-rate liabilities and the process of securitization can eliminate this mismatch. Since the sale of balance sheet assets will result in an increase of cash, issuers are able to use this new liquidity to acquire new assets and remain competitive in their market. Unlike traditional debt or equity financing, securitization is a way of raising funds without incurring the typical expenses of raising capital, such as equity or debt offerings, and many institutions do not want to dilute existing shareholders.

Not only does securitization improve the efficiency of an issuer's balance sheet but also its profitability. A securitized transaction usually effects an arbitrage profit for the issuing institution as the assets are sold for a lower yield than at which they were originated. Furthermore, the issuer will typically retain the servicing of the loans, which are now assets under administration, giving them the benefit of the servicing income. Therefore, asset-backed transactions allow issuers a method for improving their return on equity and assets as well as enhancing capitalization and coverage ratios.

The main attraction to investors in asset-backed securities is their ability to invest more directly in a wider range of fixed income products. Investors who traditionally invested in government or corporate bonds now have a wider variety of bonds to choose from. Furthermore, although they typically have an equivalent rating to other bonds, asset-backed securities will allow the investor to participate in higher yields offered by the underlying loans (i.e., mortgages) without having to incur the traditional risks normally associated with such loans.

The borrowers whose loans create the ABS pools also receive benefits from the securitization process. Although borrowers are often unaware that their loans are being securitized they will ultimately see a benefit as the issuers of the securities pass through some of the savings achieved through securitization. In addition to the borrower achieving direct cost savings, issuers are able to offer a greater variety of products and more generous credit terms as they are not retaining the loans on their balance sheet.

Structuring an ABS

The technique for creating an asset-backed security is a detailed and complicated process. The first and most crucial decision is the philosophical one of whether or not to sell assets. The potential issuer must decide after critical strategic analysis that the sale of certain assets is appropriate. After this decision is made the potential issuer will identify which asset or assets on its balance sheet it wants to sell and then begin negotiations with an investment banker to develop a suitable structure which will be attractive for distribution to investors. Asset-backed structures issued in the public markets are typically driven by three variables: credit, issuer name and yield.

Credit Enhancement

The vast majority of asset-backed structures in the marketplace carry an AAA rating by a major U.S. rating agency. This credit category is necessary due to the inherent risk characteristics of the assets being sold. Issuers have traditionally achieved this rating through one or more of the following methods:

- ***A letter of credit (LOC)*** is an irrevocable guarantee by a third party for a designated dollar amount or a percentage of the original or declining principal balance.

- ***Over-collateralization*** of the total assets backing the securities is the provision of additional assets over the level of the securities issued. This overcollateralized amount provides additional credit in the event of a cash-flow deficiency.

- ***Senior/subordinated*** structures represent a form of credit enhancement similar to overcollateralization. The senior tranche will be sold to investors as the highest credit security. The subordinated tranche acts as equity for the senior class as any shortages of cash in the senior class will be covered by diverting cash-flow from the subordinated class.

- ***Seller covenants*** provide the security with coverage for a fixed amount with recourse directly to the seller of the securities. The highest rating available under this method is the rating of the issuer itself.

- ***Surety bonds*** are essentially contracts of insurance to reimburse investors in the event of default. The institution providing the bond will assess the credit risks of the issuer and price the "insurance premium" accordingly.
- ***A cash reserve account*** is an account set up in escrow which contains funds available for investors if there is a delinquency in payment.

Issuer Name

In theory the name of the ABS issuer should not have any impact on the credit quality of the security as the credit of the transaction is based only on the assets being sold. There is typically not any recourse to the issuer unless the issuer has provided certain covenants to investors. Notwithstanding, most investors are name conscious and will show a preference for a nationally or internationally known issuer. A good example of this can be found in the Canadian NHA mortgage-backed securities market. All mortgage-backed securities in the NHA program are fully guaranteed by the Government of Canada. Therefore, the name of the issuer on any particular MBS is irrelevant to the quality and credit of the issue. If mortgages in any given pool default and if the issuer itself defaults, the investors will remain unaffected and will continue to receive monthly payments on a timely basis. Notwithstanding the AAA credit of an MBS, investors have demonstrated a tendency to be more attracted to certain issuer names over others.

Yield

The yield of the security is the other fundamental element in the final structuring of an ABS transaction. Once the term of the security is determined, a spread over the government bond of similar term will be negotiated. This spread must be wide enough to attract institutional investors.

Conclusion

The securitization process is having a profound effect on traditional financing methods. Through the disintermediation procedure a more efficient financial system is being created which will work to the advantage of all participants.

Questions and Answers:

Question:

Joe, I can see how an asset-based security would be very useful for the tourism industry. If the Federal Business Development Bank were to put some kind of a guarantee behind it, could you market it? What kind of yield would you be looking at? Are today's rates lower than today's prime rates? Would that security be looked upon as a ten- or a fifteen-year or a longer term than traditional mortgage financing of 5%? Can you give us some of your thoughts on those topics?

Mr. Barak:

As far as the term goes, that's really up to the structure, as it would be developed by the parties involved. The mortgage-backed market is currently a five-year term because that is the area that most investors are likely to participate in. But that's not to say that we wouldn't be able to do a ten-, fifteen-, or twenty-year transaction. Clearly a five-year term would be more preferable .

As far as the yield at which the security would come out, it would depend on the credit. Assuming that it was a AAA credit, it would be based on some spread back of five-year Government of Canada bonds. Mortgage-backed securities today are being purchased from institutions at around seventy to seventy-five basis points back of the five-year bond. Because of the newness, if you will, of a tourism-type asset-backed security, there would clearly have to be some premium to investors. It's hard to judge, right now, what that would be, in that there hasn't been an actual transaction done. But it would likely be at a level that would be more reasonable than typical financing from the banks or the unquantifiable costs of doing an equity transaction.

Follow-up Question:

If the Mortgage Insurance Company of Canada (MICC) were to guarantee that loan, would that stand in the same situation as the FDBD giving that letter of credit or guarantee?

Mr. Barak:

I don't believe it would, because FDBD is considered a Crown corporation, or it is viewed as such in the public. Furthermore, MICC doesn't have the same type of credit available to back up large transactions. As I was mentioning, even though a lot of the securities may be equal to one another in terms of actual credit, the investor perception of who the issuer is behind it really has a tremendous effect on the sales of the instrument.

Question:

Are you suggesting that the only way we can get this type of financing into tourism is through government agencies?

Mr. Barak:

I believe that a government agency, as the issuer, will give you exposure and a name, which will serve as a guarantee to the bank who will provide the credit.

If the government isn't going to co-operate, we don't have a transaction, and in the short run, this may be the situation. But I think that as the asset-backed market develops in Canada, it's going to open new possibilities, and as investors become more educated, there will be other alternative ways to put these transactions together.

I'm clearly not as intimate with the tourism problems as most people here are. What I am more intimately involved with is what investors will purchase. And although it would be nice if you could get a group of tourism projects together to issue their own security and finance their own debt, I don't think that's a reality right now, given the level of education in the Canadian markets. Some of the government authorities may be saying,"We're not going to give any more money. We don't want any more expenditures." Perhaps this will give them the incentive to say, "OK, we only have to provide some kind of interim financing, because we know we can sell all this stuff to the public, and we can continue lending to the tourism sector."

Question:

Joe, this is a revolutionary approach to creative financing for tourism projects, and it's a little hard to grasp in one quick presentation. Let's take as an example sport fishing camps in British Columbia. There's a group of assets that have some common features to them. And let's say that historically these types of developments have qualified for funding assistance under a tourism development agreement or tourism development program. And to carry our illustration a bit further, there is a $5 million capital pool that the government is showing as a liability on its balance sheets. So as part of its debt it has $5 million outstanding as part of a loan program for part of this particular sub-sector of the tourism industry.

If you took that situation as an illustration, and explained how asset-backed security could work, I think that might give us a bit more of an understanding of just how this process does indeed work and provides benefit.

Mr. Barak:

I think that because the government would already have the debt on their balance sheet, they would have a strong incentive to want to act as an issuer, if only in name, of some type of security. In that case we'd have to do an analysis on the quality of the assets they've got, look at what type of structure, what type of term we'd want to provide for that, package the stuff together. If the government did not want to provide the province with the credit or the guarantee, we'd have to look at some type of third party to provide over-collateralization credit-enhancement, etc., to give the security at the end of the day, a AAA credit rating. Because that's what investors are going to need to purchase it.

At that point, the province would sell the assets off into this new structure, to some type of special-purpose corporation. The Province of B.C., perhaps, would be the issuer's name on it, the guarantor would be Schedule B Bank XYZ, and that would then be sold to an investment dealer, who would then distribute it among institutional and retail investors. The province would then have the debt off its balance sheet, and the different tourism projects would have received their funding.

Impact of Tourism on the World Economy

Pamela Paul
Vice President, Travel Related Services
American Express
New York

Thank you, I'm delighted to be here at this Tourism 2000 forum, to meet fellow participants, to learn about the issues British Columbia faces, and certainly not least to visit Vancouver. As I begin today, I'd like to ask you to remember two word pictures. If you do, you will remember my message very easily. They are: a red wagon and a green parrot. It's almost a must to introduce a speech with a story, and I see no reason to fly in the face of a grand tradition. I hope you'll find this fable as appropriate as I do.

It seems that a small boy was pulling a red wagon down the street when the wagon's wheels fell off. "I'll be damned," said the boy; he put the wheels back on. A few blocks later, the wheels fell off again. "I'll be damned." A minister happened to be passing by. "Son, you shouldn't swear when something like that happens. What you should say is, "Praise the Lord." The boy put the wheels back on again and started off down the street. Almost immediately, the wheels fell off again. "Praise the Lord," he shouted at the top of his lungs. Suddenly the wheels leaped off the sidewalk and reattached themselves to the wagon. "I'll be damned," said the minister.

Now, why is this story appropriate? I'm here to tell you that the wagon we are pulling, the travel and tourism industry, is the largest in the world. I hope that your reply is "Praise the Lord," but I know that most people's would be "Well, I'll be damned." Yet we are the world's largest industry, as documented by a study that an internationally respected economic consulting firm recently completed for American Express.

Let me give you an idea how big we really are:

- We are a $2 trillion industry: that's two thousand billion dollars. To put this in perspective, if travel were a country, its gross national product would rank fourth in the world after the U.S., the Soviet Union and Japan.

- In country after country, even the most highly industrialized, our industry is the leading employer. We employ over 100 million people worldwide—that's one out of every sixteen workers.

- Not only do we have the largest payroll, but our companies invest more in facilities and equipment each year than many key manufacturing industries. We spend over $276 billion on capital investment in 1987.

Ladies and gentlemen, all this spells clout.

Now this is very good news, naturally, for all of us in this room, but we have a problem. No one realizes our power. The economic importance of the travel and tourism industry is not widely known or appreciated. We're still perceived as something only slightly more essential to our economies than a romantic trip on the Orient Express. For some reason, the perception is that Banff tourism activities aren't as substantial economically as an auto factory would be in that very spot. That's nonsense, of course—but dangerous nonsense.

The consequence of our industry not being understood is this—the industry is not as influential as it should be with policy and opinion makers and this perception problem is one that we have across the board at the local, provincial, national and international levels.

I'll bet that few of us, let alone those outside the industry, know that travel and tourism contributes more to the economy than those industries that seem to have the government's ear—industries like autos, electronics, steel and textiles. Representatives of these industries are regularly consulted by policy makers, and concerns about the health of these industries often influence trade, tax and other policies. Yet the travel and tourism industry, which is larger, rarely receives the same consideration.

Bill Marriott says that it's been his personal experience that in two decades of hotel openings around the U.S. not a single state governor has attended. "But", he says, "let a governor hear that a Japanese company is considering locating a plant in the state, he'll be on the next plane to Tokyo to try to make the sale." Mr. Marriott's experience is representative of the lack of appreciation and understanding that the travel industry faces. My message to you today is that this lack of influence prevents us from maximizing tourism's growth and economic contributions. Modesty is not the best policy if we want an environment that promotes tourism and the benefits that flow from it.

American Express recently hosted a World Travel Roundtable in Paris to discuss this very problem. We asked a group of CEOs from all areas of the travel industry around the world, including Pierre Jeanniot of Air Canada, to come together and see if we couldn't find some common ground for action. The consensus of this powerhouse group was that given travel's size and scope, we must assume a leadership role in economic and social policy debate. We must stand up and be counted. We are so large we can no longer afford to be a wallflower in the councils of government.

Now the reason that, in the words of the comedian Rodney Dangerfield, "We don't get no respect" is that our industry's economic importance has been overlooked because few analysts view us as an integrated whole. And no wonder: we seldom view ourselves as such. Instead, travel and tourism is broken down into its component parts: airlines; railroads; passenger ships; hotels and motels; restaurants; travel agents and so forth—and each member focusses most attention on competing with similar sector participants. Not that competition is unimportant, but there are cases in which the whole is greater than the sum of the parts—and the travel industry is a prime example.

We have many good reasons for working together. Let's start with our customers. When they are asked, travellers say that they judge their travel experience on the basis of the entire trip. They don't think about lodging, transportation, meals, entertainment, taxes and so on separately. This means that problems in one part of the industry reduce demand for the entire industry. If a tourist has trouble with his flights or his baggage, it colours his impression of the entire trip.

Similarly, an unfriendly or unprofessional atmosphere in one destination can cast doubts on other places as well; and the next time the client may feel it's just easier to stay home, or go somewhere nearby, than to travel.

On the other hand, anything we do to improve cost and quality in one sector improves the market for all of us. Because of our interconnectedness, the different sectors of the travel industry should have the same motto as the three musketeers—one for all and all for one.

Let me give you an example of an area ripe for joint action. According to consumer research, we know that flying is becoming a less and less pleasant experience for the public. One of the conclusions of those attending the World Travel Roundtable was that governments around the world have failed to provide the basic infrastructure necessary for a growing travel industry. Airports, air traffic control, and available landing slots are of particular concern.

Tax revenues collected from our industry simply haven't been matched by investment in infrastructure. We need to work to be sure that officials and local communities are aware of the associated economic benefits of increased travel and tourism; that limits on airline capacity in turn inhibit growth in other sectors, such as hotels and restaurants. Perhaps Vancouver doesn't have a problem with its airport, but I understand that most Canadian air traffic has been adversely affected by problems at Toronto's Pearson Airport. You here in British Columbia may be affected by capacity problems elsewhere.

To return to my basic point, if we were more accustomed to thinking and working as an industry, if we had more influence as an industry, the problem with infrastructure might not be as serious as it has become, and we would all share in the growth in demand by eager, willing travellers.

As another example, provinces and localities, as well as countries, often target travel and tourism for special taxes. So we have airfare and hotel occupancy taxes, airport departure fees, discriminatory landing fees, and so forth. All this is based on the incorrect notion that such taxes are exportable because they're paid by tourists and business travellers who live elsewhere. As they say in the U.S. Congress, "Don't tax you. Don't tax me. Tax that fellow behind the tree." But exporting taxes is economically equivalent to taxing exports. The point is that all these special taxes raise the cost of various parts of each trip, often by as much as 10%, and in some cases more. Higher travel costs can in turn reduce demand, and thus cost local jobs and other benefits of business. Can you imagine the public outcry the politicians would face if they proposed a special export tax on autos, semiconductors, or agricultural products? The special levies on travel and tourism make no more sense.

And there are other limitations beside taxes—entry visas, duration limits, currency restrictions, customs allowances for returning residents, limitations on foreign investment in companies offering travel services, restrictions on non-national personnel, and so on.

Government policies that constrain the travel and tourism business should be viewed for what they are—trade and investment barriers.

One purpose of this forum is to overcome those investment barriers. We've got our work cut out for us. I have to tell you that even the international development banks, which you'd think would understand the importance of the tourism business, have failed to appreciate the industry's solid economic achievements and growth potential, its importance as a generator of employment, income and foreign exchange. Tourism lending suffers from the same perception problem and lukewarm interest as seen generally. For instance, there are cases where projects specifically framed as tourism projects received little interest, but then were funded when defined in terms of "economic infrastructure."

We need to work together to bolster our industry's image to bring it in step with its economic might, to help government and the public understand what we all contribute. Because, let's face it, many people still view our industry as frivolous, as a luxury existing only to pamper the rich or dispense the celebrated three-martini lunch. Travel is often lumped into luxuries along with the "sin tax" products such as alcohol and tobacco.

We want to shift the image to what travel and tourism is really about—economic power:

- We create jobs. As I said earlier, over 100 million around the world, and approximately 1 million in Canada.

- [illegible] encourage investment and economic growth.

- We generate tax revenues—$166 billion annually worldwide.

Travel and tourism's low image and low priority have resulted in a pattern of, at worst, discriminatory government policies and, at best, benign neglect. Either way, it results in a significant impact on industry sales, jobs and growth.

We need to market our industry as effectively as we market Vancouver or Cancun or Monte Carlo. Let me tell you what this would mean. If we improved the economic climate for travel and tourism enough to raise world demand by just 1%, this would translate into:

- $20 billion in additional annual sales.
- 1 million new jobs.
- $1 to $2 billion added to tax revenues—and an increase in profitability of travel and tourism companies by an estimated 15% to 20%.

Now, remember the red wagon? Here comes the parrot. I've read that Paul Cézanne acquired a bright green parrot of excellent voice, which he taught to repeat one phrase over and over again: "Cézanne is a great painter.Cézanne is a great painter." The rest is history!

Maybe our industry needs the equivalent of a bright green parrot to proclaim the fact that travel is a great industry, travel is of great economic benefit. This is important not just for others to accept and recognize, but for the industry itself to embrace.

And all indications point to even more dramatic change in the future. For the most part, we have adapted quite well. The question for all of us is this: do we simply continue to adapt to change, or do we begin to anticipate and manage change?

If we are going to manage change, we need some influence. It's needed right here in British Columbia; it's needed in Ottawa; and it's needed internationally. And I just wanted you to know that American Express stands ready to help in any way we can to make sure the importance of travel and tourism is understood and appreciated.

Questions and Answers:

Question:

Will there be a follow-up to the Paris meeting?

Ms. Paul:

Yes, we are surveying the people who went to the meeting and asking them in what fashion they would like to follow up. We don't believe, however, that our role is to continue being the sole leader of this group. Rather we would prefer to see the group deciding whether it wants to establish a formal program and organize itself, elect officers, etc., or even to meet informally on a periodic basis.

By organizing this meeting we attempted two things: first, to get this group of people together for the first time, and second, to find out if they all agreed with our feelings about the importance of looking at business across sectors and across geography. In fact most of the participants share that need. I am not sure what will happen structurally, but everyone is interested in keeping the forum alive.

Question:

Was there a representative country in Paris, which perhaps recognizes the importance of the travel, leisure and tourism industry?

Ms. Paul:

I think someone mentioned yesterday something about the Bermuda model, and I was thinking of talking about Bermuda as an interesting example, because Bermuda is a country that certainly recognizes the importance of travel and tourism. During my visit to that country about a year ago, I was told, and documented with facts, that Bermuda has the highest per capita income of any nation on earth. And as far as I'm aware, they have almost no industry except travel and tourism. So I think that they have adopted a very strong affiliation with the industry in recognition of its power. I don't really think that many of us in the industry have woken up to the full magnitude of our range of activities. If we haven't, could the governments be expected to do so?

Question:

From a policy point of view how are we going to deal with "leisure" which is an intangible short life asset?

Ms. Paul:

We think that the asset, if you will, from a public point of view is employment, that education potential in the services sector and the jobs are a very valuable asset for the world. Leisure has created the bulk of employment for the last few years. I'm not sure exactly when the switch happened, and the service industry became the primary generator of employment, but today leisure is the most receptive industry to the introduction of all kinds of people into the workforce. We employ more people of different ethnic backgrounds, we employ more women, offering interesting career paths for advancement with the service-industry. I think that in itself is an undervalued asset, not just to business.

Chair:

If I could comment on that, I think where a manufacturing plant is putting out 100 cars a day, out of our resorts we're putting out 100 people a day. Or even thousands . Our product is selling happiness. Our plant—our hotel or resort—is no different than a manufacturing plant: if we shut the door or quit producing, that manufacturing plant is not any better than an empty hotel. So we're turning over a lot of bodies, the same as cars.

Ms. Paul:

I agree totally with you. The conclusion I draw is that marketing plays a fundamental part in this industry. It is essential to remember that our prime role is to fill those bedrooms and to fill those airline seats with decent occupancies throughout the year and, therefore, sustain the industry to the point that the man in the street sees it as an established industry.

But what is interesting to us is that there's an untapped potential which is not being realized because of some of the barriers I've mentioned: because of either crowding, or difficulties in making travel arrangements, etc. There are difficulties in travel which we could work to overcome. For instance, the growth in Japanese tourism and in Japanese business travel has been tremendous. However, there is still an untapped potential in targeting the existing gap between those who travel and those who would like to travel but are fearful of encountering no one who can "speaka da language."

Quantifying Risk, Rate of Return and Economic Impacts of Tourism Projects: A Computer-Simulation Model

Gordon Phillips
Principal
Economic Planning Group
Mississauga, Ontario

Introduction

Background

The Tourism Financial Assessment and Economic Impact Model (the system) was developed for the purpose of assessing proposed tourism projects in Ontario, either entirely new projects or expansions to existing businesses. It is a customized computer-simulation model which can be used to assess the following features of a tourism project:

- Expected future earnings.
- Return on investment and project value.
- Return on government investment.
- Expected economic impacts, both from development and operations.
- Comparison of operating projections with "operating norms" for similar types of businesses of a similar size and located in the same region of the province.

Three versions of the model make it possible to evaluate projects for which different levels of detail of information are available:

- Model A — Used where a detailed breakdown of capital costs, financing and operating projections are available for the first five years.

•	Model B	Used where a detailed breakdown of the above data is available only for the first year.
•	Model C	Used where only very basic data is available on the project. This system uses the norms for similar businesses to predict the performance of the project.

Sponsorship

This system was developed for the Canada-Ontario Tourism Development Agreement Management Committee, with funding on a fifty/fifty basis from the Ontario and federal governments.

It was developed for the use of all provincial ministries and federal departments involved in assessing tourism projects in Ontario. Representatives from the following agencies participated on the steering committee which guided the development of the system: the Ontario Development Corporation, the Ministries of Tourism and Recreation, Treasury and Economics, Natural Resources, and Northern Development and Mines from the Ontario government and the federal Department of Industry, Science and Technology.

Development Team

Two consulting firms were contracted to develop the system over a thirteen-month period concluding in December 1988. The financial evaluation part of the system and the development of industry norms were undertaken by the Economic Planning Group of Canada (EPG) with programming assistance from NPSI Programming. Econometric Research Limited (ERL) developed the economic impact portion of the system.

General Description of the System

The Tourism Financial Assessment and Economic Impact Model System consists of the nine diskettes (two master modules; two each for Models A, B, and C; one impact module); two users' and technical manuals (*Volume I, Financial* and *Volume II, Impact*); and a pamphlet, *Before You Start*.

The system is made up of three interactive sections: Master Module, Financial Models and Economic Impact Models. The first two sections are based on a compiled version of LOTUS 123® programming, called 1 to C®, while the third is a Turbo Pascal Program.

The overall structure of the system is described in the exhibit at the end of this section.

Master Module

The Master Module is used to select:

A. *Type of Business*

- Hotels
- Motels
- Campgrounds
- Wilderness Lodges
- Outpost Camps
- Resorts—Housekeeping
- Resorts—Other
- Attractions—Single Element
- Attractions—Multi Element
- Marinas
- Ski Areas
- Golf Courses
- Charter Boats
- Cruise Boats
- Cruise Ships
- Restaurants

B. *Size Category (in annual gross revenue)*

1. $1 to $300,000
2. $300,001 to $1,000,000
3. $1,000,001 to $3,000,000
4. $3,000,001 plus

C. *Regional Location*

1. Southwest
2. Metro Toronto
3. Central
4. East
5. North

D. *Level of Input Data Available*

Model A	Detailed breakdown of capital costs, financing and operating projections for five years.
Model B	Detailed breakdown of the above for the first year.

Model C Only basic data available.

The Master Module is also used to input: the applicants borrowing rate, the government's long-term borrowing rate, the inflation rate and income tax rates. Default settings are provided for each of these last variables. The operator simply overrides the default setting if so desired.

Financial Models

Once the data input is completed in the master module, the system automatically loads the appropriate model A, B or C and transfers the necessary data to it. The model provides a customized financial model for the type of business selected, containing the norms for that kind of business. These norms are also customized for the size category selected and for the region in which the project is located.

The operator is presented with a series of data-input screens into which the appropriate data is entered. Different levels of detail are requested, depending on which version (A, B or C) was selected. Basically, the operator is asked to input the following kinds of data:

- Capacity
- Number of days of operation
- Projected utilization rates and prices
- Capital costs and depreciation rates
- Financing, including government financial assistance and its terms
- Projected initial revenues and operating expenses
- Financing and cash flow data for any existing operations

Upon completion of the input data, the model automatically performs the following tasks:

- Projects the operating pro forma (revenues and expenses) for twenty years.
- Calculates annual depreciation, interest costs and income taxes.
- Calculates net profit and net cash flow.
- Calculates return on investment and project valuation. Return On Investment

(ROI) is calculated using both the present value of cash flow method and the internal rate of return method, for periods of 10, 15, and 20 years, including and excluding "residual value." Additionally, both incremental returns on new investment as well as the consolidated return on total (new and existing) investment are calculated.

- Calculates return on government investment, based on the cost of any government assistance involved and the present value of corporate income taxes recovered in the future.
- Compares revenue proportions, cost of sales percentages, departmental expense percentages and overhead cost percentages on an item-by-item basis against industry norms. The variance is illustrated, and a variance "flag" is presented if the project data varies by more than one standard deviation from the norms data. (Standard deviation is based on the norms data base.)

The operator is presented, at the end of the input screens, with the choices of changing his input data, of "roaming" the worksheet screens or of going directly to the printing of reports. A series of ALT-commands are provided for easy movement around the worksheets. Similarly, a print menu is provided to enable the operator to select the number and types of reports required. The printing of the reports is completely automatic once these selections are made. The following financial reports are available:

- Detailed Capital Cost Schedule
- Detailed Financing Schedule
- Detailed Pro Formas (including ROI), Years 1–10
- Detailed Pro Formas, Years 11–20
- Summary Pro Forma
- Return on Investment Analysis Only
- Capital Costs per Unit Report
- Norms Variance Report
- Highlights Report
- Input Screens Printout
- All Reports (Twenty-one pages)

Note that two special reports are automatically available from the system. The Norms Variance Report shows how the project compares to the norms, and the

Highlights Report provides, in a text form, a summary of the highlights of the analysis.

Economic Impact

The operator can then load the economic impact system, which is the third section. Once the economic impact system has finished its calculations, all of which are automatic, it prints out the economic impact report.

The operator can re-load previously saved models at another time if changes are required.

Skills Required

An operator must have the following skills in order to operate the model:

- General familiarity with financial analysis.
- General familiarity with micro computers using MS-DOS® and basic command skills.
- Basic skills with the LOTUS 123® system.

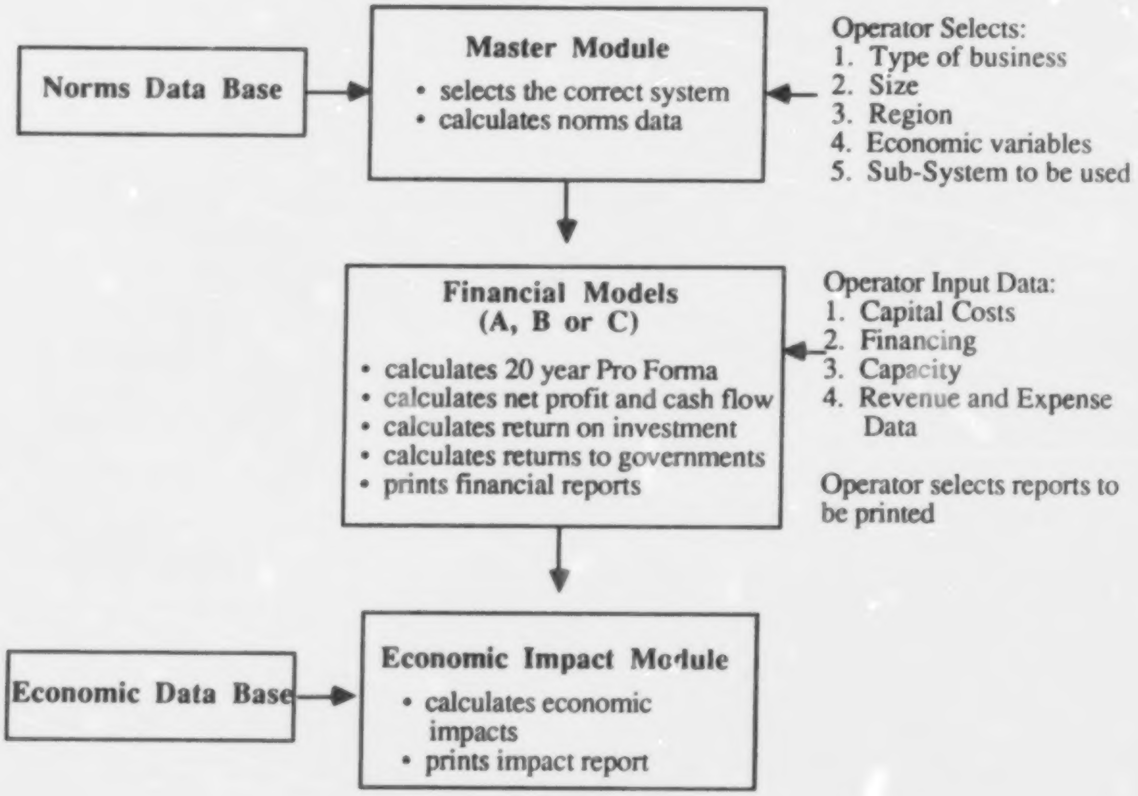
Trademarks

Reference is made in the manual and in the system to LOTUS 123®, IBM PC®, IBM AT® and DOS®.

IBM is a registered trademark and PC, AT and DOS are trademarks of International Business Machines Inc. LOTUS 123 is a registered trademark of LOTUS Development Corporation. 1 to C is a registered trademark of Resource Analysis International.

Exhibit 1

Structure of the Tourism Financial Assessment and Economic Impact Module


Master Module
• selects the correct system
• calculates norms data
Norms Data Base
Operator Selects:
1. Type of business
2. Size
3. Region
4. Economic variables
5. Sub-System to be used
Financial Models (A, B or C)
• calculates 20 year Pro Forma
• calculates net profit and cash flow
• calculates return on investment
• calculates returns to governments
• prints financial reports
Operator Input Data:
1. Capital Costs
2. Financing
3. Capacity
4. Revenue and Expense Data
Operator selects reports to be printed
Economic Data Base
Economic Impact Module
• calculates economic impacts
• prints impact report

Uses of the System

Ten different types of uses have been identified for the system. These are described below:

1. Financial Feasibility Assessment

One of the two primary uses of the system is to assess the financial feasibility of proposed new tourism projects or expansions. The system calculates:

- Present value of cash flow, i.e., warranted investment;
- Internal rate of return;
- Project valuation, i.e., the expected value of the business in future years.

2. Economic Impact Evaluation

The second primary use of the system is to determine the expected economic benefits of developing and operating the project. Employment, income and taxes are calculated, both in terms of direct impacts as well as the combination of direct and induced impacts.

3. Sensitivity Analysis

The system can be used to evaluate differing levels of financial performance under varying assumptions as to pricing, utilization rates, operating cost levels, economic conditions and other variables.

4. Financing Options

The system can be used to determine the impact on project feasibility and government return on investment of a range of options as to how the project is to be financed and the terms of financing. This includes not only options as to equity and debt, but also options with respect to the form, level and terms of possible government financial assistance.

5. Evaluation of Return on Government's Investment

The system automatically calculates the cost to government of any financial assistance provided to a project, and compares this cost to the present value of corporate income taxes collected in the future.

6. Comparisons to Industry Norms

The system compares the projected operating performance of the proposed project with norms for similar kinds of businesses, of a similar size, and located in the same region. This is most useful in assessing the reasonableness of projections and, where the system is being used to evaluate an expansion, it can aid a tourist operator in assessing the operational performance of his existing business.

7. Comparison of Projected vs. "Typical" Performance

Having used the A- or B-versions of the model to prepare a financial pro forma, the C-version can then be used to provide a comparison between projected financial performance and what the financial performance would be if the business conformed in all respects to industry norms.

8. Preliminary Project Assessment

The C-model of the system can be used in the early planning stages of a project to predict what likely financial performance can be expected. Based on the findings, basic decisions can be made to refine the project, proceed with more detailed planning, or drop it altogether.

9. Comparison of Alternatives

The system can be used to compare the following:

- Alternative project proposals
- Options with respect to the mix of profit centres
- Options as to the size of the project, and
- Options as to the regional location of the project.

10. Policy and Program Evaluation

The system can be used by government in the evaluation of a variety of policy matters and program proposals affecting specific tourism sectors. Assuming some estimates can be made about the likely levels of new investment and revenues in a given sector resulting from a policy proposal or a program proposal, the C-model can be used to predict financial performance in the sector and the economic impacts resulting. The total level of investment and revenue is simply treated as if it were a single business, and the system is used in the normal way to project the economic results. The following useful measures will result:

- Economic impacts
- Impact on industry financial performance
- Taxes generated.

Minimum Equipment Requirements

Hardware

- IBM PC® or compatible with a hard disk (IBM AT® or any 286- or 386-system is preferred)

Memory

- 640K RAM

- 3 MBytes of hard disk space

- No other programs may be resident in memory at the same time as the model is used because, between DOS® , LOTUS®, and the system, the whole 640K is utilized—any Auto Exec Commands or other files in memory must be removed.

Software

- DOS® version 2.0 or more recent

Printer

- Any printer capable of 240 characters

Restrictions on Use

The Financial Assessment Model is the property of Her Majesty the Queen in Right of Canada and Her Majesty the Queen in Right of the Province of Ontario.

The Economic Impact Model is provided for use by the Queen under a perpetual licence from Econometric Research Limited (ERL). Unauthorized use is therefore prohibited. ERL owns the copyright on the Economic Impact Model, and under copyright laws, neither the documentation nor the software may be copied, photocopied, reproduced, translated or reduced to any electronic medium or maching readable form, in whole or in part, without the prior written consent of ERL.

The Tourism Financial Assessment and Economic Impact Model is for internal use only.

Norms Data Base

Composition of the Norms Data Base

The following exhibit provides a complete breakdown by sector, region and by size of the norms data base. Although this breakdown indicates a total sample size of

371 businesses, it is important to realize that this is the net result after collecting data from approximately 600 operators. Businesses were removed from the data base if they did not meet the project's guidelines. (See below for the guidelines.)

At the outset of this project, it was deemed desirable to produce a data base from approximately 30 to 40 businesses per sector (6 to 8 in each region). However, during data collection it became apparent that it was not possible to collect data on this many businesses in every sector, and similar problems were encountered with sample sizes in the size and regional categories. Sufficient numbers of qualifying and co-operating operators were frequently not available. The problem was most acute in the attractions, charter boats, cruise boats and cruise ships categories, also in the larger size categories. In these cases, other sources of data were used where available, including published statistics and other studies on businesses in these categories. The data collected does not conform in all respects to statistical standards of reliability.

The consultants believe that the data base is representative in most categories, and where sufficient data was not available in certain regions and size categories, the provincial averages were used.

In order to qualify for inclusion in the norms data base, a business had to conform to certain guidelines. These are described below:

- Businesses must show an operating profit before depreciation and service to long-term debt.
- A business must have been operating for a period of not less than two years.
- The financial statement data must not be older than 1985.
- The financial statement must not include revenue or expenditures from more than one sector; i.e., a ski area would be disqualified if room revenue and expenses were included in the financial statement.
- A business must be privately owned and operated.
- The business must be commercially operated and not operated as a non-profit business. (This eliminated the greater number of golf courses).
- The business would be categorized into one sector depending on the nature of the business and the greatest source of revenue.

Norms Uses

The industry norms in the system have been designed to represent the financial performance of a "typical" tourism business in each of the sixteen sectors in the system. The norms have been further refined to indicate the influence of regional location and size of the business. The result is that the norms, for example, provide an operating profile for a marina located in the central region having gross revenue of between $1 million and $3 million. This profile is based on the actual performance of similar businesses of a similar size in the same region.

Clearly, this data is very useful for comparison purposes in evaluating a proposal for a new marina of similar size to be established in the same region. We have identified the following uses for the norms data.

1. The norms can be used to compare projected operating performance of a proposed new tourism development with "typical" operating performances of similar businesses. This is an excellent check on the "reasonableness" of the projections. It enables the analyst to focus on possible areas of weakness in the data input.

2. The norms can be used to compare alternative investment opportunities among sectors, among sizes of projects, and among regional locations. The operating profit norms are particularly useful in this respect.

3. Where the system is being used to evaluate an expansion, or simply to prepare a long-term forecast for an established business, the norms can be used as part of an operational review, highlighting areas where the business is performing well and areas where it is not, and suggesting where management should be addressing its attention.

4. The data is useful to government in its policy and program planning activities with respect to the tourism industry. These include:

    a. Planning industry assistance programs. The data indicates which sectors/regions/sizes are more profitable and should be encouraged to grow, and which require help. The data can also be used to assess the kinds of economic activity which will be generated from an expansion of activity in a sector.

    b. Assessing the impact of policy and program proposals on industry profitability.

    c. Assessing the impact of policy and program proposals with respect to the kinds of economic activity (spending) they will affect.

5. The data is useful to industry sector associations and regional tourist associations in planning their programs, establishing priorities and in their dealings with government.

Composition of the Norms Data Base

KEY

Region
1 = Southwest
2 = Metro
3 = Central
4 = East
5 = North

Size
1 = $1 to $300,000
2 = $300,001 to $1,000,000
3 = $1,000,001 to $3,000,000
4 = $3,000,001 plus

		Region					Size			
Sector	**Total**	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**
Hotels	58	8	8	10	13	19	7	22	12	17
Motels	26	5	2	7	4	8	20	5	0	1
Campgrounds**	42	10	3	9	5	15	0	0	0	0
Wilderness Lodges	25	0	0	0	0	25	21	4	0	0
Outpost Camps	26	0	0	0	0	26	22	4	0	0
Resorts—Housekeeping	41	0	0	23	2	16	37	4	0	0
Resorts—Other	15	0	0	9	3	3	7	5	3	0
Attractions—Single	13	2	0	8	2	1	8	4	1	0

** Information was not available on gross revenue size categories for this sector.

		Region					Size			
Sector	**Total**	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**
Attractions—Multi	6	2	0	3	1	0	0	3	2	1
Marinas	31	7	1	14	6	3	9	17	4	1
Ski Areas	13	0	0	7	3	3	2	9	1	1
Golf Courses	17	2	0	4	5	6	6	11	0	0
Charter Boats	4	0	0	1	3	3	2	2	0	0
Cruise Boats	6	1	0	4	0	1	3	3	0	0
Cruise Ships*	0	0	0	0	0	0	0	0	0	0
Restaurants	48	8	8	12	17	3	10	16	20	2
Total	**371**	**45**	**22**	**111**	**61**	**132**	**154**	**109**	**43**	**23**

* Data obtained from feasibility study of a single operation was insufficient to determine norms.

Questions and Answers

Question:

My question is about your attempt to set standards for those four or five areas within Ontario. How did you come up with the averages of that area and how did you organize the data?

Mr. Phillips:

Based on the financial statements of fifty-eight hotels, we built a data base. We looked at their average performance and from each variable we came up with what we called a "norm." Next ,we created a norm of all the hotels from southern Ontario and re-sorted the data base by size. Arbitrarily, we selected all the hotels which exceeded $3 million in gross revenue, obtaining again another norm. We incorporated all this information into the system which then multiplied the provincial norm against co-efficients and adjusted it up or down for both sizes and regions. In the end, we came up with a theoretical figure which is biased by both sizes and regional location from the provincial average.

We put the mathematics into variants from the provincial norm because we felt, frankly, that there was more integrity in the provincial norms than there was in some of the regional sub-sets.

Follow-up Question:

Did you find significant variances in food costs, labour costs, and their percentages, from one area to another within the province?

Mr. Phillips:

We did find some but we expected certain kinds of variances. And we found more or less what we expected.

Question:

Could you tell me if your model interfaces to the Statistics Canada input/output matrices?

Mr. Phillips:

It's built from the Statistics Canada input/output matrices. That was our starting point. The other firm that was involved with us in this project created a series of equations to disaggregate the provincial input/output model, the Statistics Canada model into twelve regional sub-models, based on the twelve Ontario Travel Association regions. So if you're familiar with input/output, it's based on the 1979 input/output tables for Ontario.

Follow-up Question:

Is there an allowance for updating your co-efficients in the model?

Mr. Phillips:

It wasn't automatically built in, but obviously now that the 1984 input/output data is coming out, that basically means we're going to have to replace the data base on this one, and bring it up to 1984.

Follow-up Question:

One final question. If I'm looking at a model, say if I want to develop a resort in the Queen Charlottes, the question of leakage comes in. As you know in an isolated economy, leakage stands to be bigger than a standard norm. Is there any sensitivity in the model which recognizes that sort of a huge deviation with the norm standards?

Mr. Phillips:

Yes, they're supposedly built into the regional equations. For example, if you look at some of the regional outputs from this system, we're finding multipliers of substantially less than one. And we're used to multipliers substantially more than one. And that's because there's enormous leakage from the local economy.

Government's Role in Attracting Investment and Minimizing Risk

Jim Doswell
Assistant Deputy Minister
Ministry of Tourism and Provincial Secretary
Victoria, B.C.

What I want to talk about today is slightly different from just minimizing risk and attracting investment. I would like to expand on why and how you can deal with government in order to complete what you have set out to do as developers and operators within the tourism business.

When one embarks upon a great journey one should first know where he or she is going. In the last four years of working in government, I have had the great luxury of being able to see how few people know what the outcome of their projects will be. They very rarely realize the critical role the different partners within their deal may play. And so I would like to highlight some of the recent developments we have seen in British Columbia and in Canada.

We live in a province with 366,000 square miles of land, yet we continue to develop the corner of Broadway and Heather. Instead of developing sound concepts driven by customer demands, we constantly try to find a piece of land and then try to find out what best fits upon it. In our experience any time someone decides to create a development based upon sound market research and sound customer demands, the products ultimately succeed. But when you try to fit other types of development on the piece of land that you happen to own, there are some problems.

We have also noticed a great deal of emphasis in the last couple of years on equity as opposed to debt. Today, it is probably generally true across Canada that our industry suffers greatly from too high a debt. As a result, we have a hard time weathering "economic adjustments" (as the federal government calls them, but we call them recessions) and we find that more and more businesses are unable to handle the transitions of the market or maintain the cash flows they require to meet new and changing market demands.

Integrated Developments

Tourism is a not a stand-alone product in a seasonal market, whether it is here or in Hawaii or Australia or anywhere in the world. Earlier in this conference we discussed the concepts of 5-R development: retail, residential, recreational, resort and retirement. This is of great interest to us because it creates the cash flows that you require at the beginning of your development to carry you through; it allows you to have those cash flows that will give you the recreation facilities; and it also allows you to put a higher equity base into your hotel operations or resort operations. That, in turn, will return you the necessary cash flows to support other facilities. When I look out and see the sables I think we have evidence that it does work. It does not have to be in downtown British Columbia to work.

Why would you develop in British Columbia?

Tourism is the fastest growing sector of our economy; we have good economic climates; and we have an industry which is in transition. Our motels and smaller properties throughout the province are suffering even as business increases and tourism in general grows at phenomenal rates. As a result, we have to modernize and involve the development community, as much as the existing operations community. In my opinion, there will be unbelievable opportunity in British Columbia in the years to come.

Why deal with government?

There are really only about three crucial reasons. First of all, we have money. I don't want to emphasize that as the most important reason, but there are programs to assist and ways to package. I would emphasize that we don't want to be program-driven; instead we would prefer to use our creative resources to find other ways to assist you in completing your projects.

Second, 95% of the land in British Columbia is controlled by the Crown. And when you control 95% of the land, there is an opportunity for the development community to work together with the government.

Third, the most powerful tool that I believe government offers today for the tourism industry is information. I continue to be amazed at the absolute inundation of different types of technological information, creative information and marketing information that comes in from around the world. This information is quite valuable to you as developers and operators within the tourism business. It can assist greatly in reducing other costs in getting your equity-based, franchise, or other financing.

How to Deal with Government

Whether a small operator trying to put together a motel in a northern community or a builder of a major resort, very rarely do people understand how to deal with government structure. And I admit that it is not easy. We often reorganize, and the minute you get to know someone, he or she has gone off to do something else anyway.

But there are four key areas to deal with.

First, when you come to us, make sure you have a strategy. It is amazing to me that most people who approach us on projects, or seek assistance in one form or other, have absolutely no strategic plan. People seem to embark on great journeys with no idea where they will end. Know what you want from the Crown and what you wish to accomplish when you meet with them. Know how we can assist you to complete your deal. You may not need money; you may not need information. You might need facilitation with other ministries that are standing in your way, be it Highways or any other ministry. Be straight, and be open.

Over the last couple of years we have had an amazing inundation of destination resorts in British Columbia. The reason we have had destination resorts, which have been located to a great extent in urban areas, is that we have a program called the Economic Regional Development Agreement (ERDA) that will fund destination resorts. So everything automatically becomes either a destination attraction, a destination RV, a destination campground, a destination gas station, and in one case, we even had a destination flea market. And it does not work.

Third, if you are going to create a ski development, the alpine policy is great. If you want a recreational land development, let's talk about recreational land development. If you want to expedite your process, and you want to work together with government, let us know exactly what you want to do.

And fourth, know who to talk to. It is very difficult at times, when you are sitting outside of government, to figure out who's got the football on any issue. It is very difficult to know whether you are speaking to someone who can actually say yes and get something rolling for you. We have lots of very grandiose titles which have a tendency to confuse. Know who to talk to, and when in doubt, go as high as you possibly can. But try to realize that you want to develop some sort of partnership.

Now a little bit about the players who make up the development industry of our province: the developer, the consultant, the banker and the government guys.

The developer is driven: he is visionary, he is bull-headed, and he is probably what will make this province go into the year 2000 more aggressively than anything else. He is the captain. The rest of us swim with him. He is quite often profit-driven as opposed to customer-driven, and in that way needs to be controlled; but not too much, because we need people with that vision and drive. Nine times out of ten they are head bangers.

However, this stereotype is changing radically with incredibly wise investors and developers such as Intrawest: they are doing some very creative things up at

Blackcomb and in other areas. Some of the other groups within the development business are catching up. They are realizing that customer demand drives quality; quality causes price to go up; and price going up causes profit to go up. But basically the developer makes it happen.

The consulting industry, other than those who are giving accounting advice and so on, are sometimes perceived as drawing maps of areas they have never been to.They are sectoral experts and frequently ex-civil servants. Consultants are excellent writers and collectors of other people's ideas; they have a way of focussing your information so that it is understandable; and they can tell you where to get the information. Of course, nine times out of ten you could get it from the same place, which is from the public libraries and the files contained within the ministries of the Crown.

I am not going to go hard on the bankers because this whole week has been somewhat bloodying for them. I wouldn't call bankers the great risk takers of the tourism industry. They are not exactly driven to develop our province in the way we see that it could be. But they are business people. They are driven by profit the same as the rest of us. There is a very great symbiotic relationship between the banker and the consultant, because the consultant supplies the paper that covers the decision the banker makes which allows the consultancy industry to continue and grow, and the banking industry to make fewer mistakes.

One of the problems that we have in western Canada is that our focus has a tendency be to the Pacific Rim as opposed to upper Canada, whereas our growth too often rests upon the decisions made by the banking industry in upper Canada. Whether you can see it from the CN Tower or not, it does exist on the west side of the Rockies, and will continue to.

Risk is not in the vocabulary of a bureaucrat, not if he wishes to retire a bureaucrat. Risk is not rewarded in government. There are very few senior managers in government who have the power to say yes.

"No" is the expression of middle management. If you cannot get these people involved in your process, "no" is what you will hear. They strive for recognition. Try to remember, in dealing with them that they are process-driven, not outcome or results-driven. Process is the way of the world, and if you think it's bad in British Columbia, come with me Tuesday night on the Red Eye to Toronto and see the worst forms of consensus-building you could possibly imagine.

The government thrives on the evaluation of what you do, as opposed to the advocacy of what you do. This in itself is probably reflected more and more times as people say, "Well, bring us a proposal that we can take a look at."

I want to talk about how you can get your development project to work. You must know the players and where within the Crown your deal impacts. You have to know the different areas that are going to affect your particular development—highways, forests, environment, and so on. Be realistic in that assumption. Be very strategic in how you approach the Crown with it. I do not think you have to have five or six consultants assisting you in that process. If there are problems that are going to come up down the road, identify them early, and work straight above the board with the people who can assist you the best.

Develop your plan with government; don't let them check your plan—build it together. Put the civil service in the position of working with you in the development of your project, as opposed to the evaluation of your project. The development of ownership on both sides of a deal creates the project—with your bank, your investor, the government or anyone else. Every time I have seen that happen—where one of the staff in either my division or other divisions of government feel an ownership, feel like they are part of the team of putting it together—they also feel they are taking part of the win when it is over. This is very important.

Find an advocate inside. Work with someone who wants to see your project happen and recognize that we do not always deal with reality in government. We deal with perception. Reality may not re-elect a government. A graphic example of that right now in British Columbia is that we have one of the strongest economies ever, one of the lowest deficits. We are in a balanced budget with a surplus—unemployment is going down, exports are up, and yet the government is not faring well. Perception is more important than reality. And the perception of how your project works through the system is far more important than the realities of your profit or other factors.

If your project is going to use government land, it has to be environmentally sensitive. If it is going to need highway access, it has to fit into the fairness of what goes on around you. Just because you are going to employ more people than the people across the street, doesn't mean that the government can do an extra deal for you. So try to deal with those perceptions.

There is also the political angle. When do you use it? When do you end-run the system? I recommend, unlike a lot of my colleagues, that you start by end-running the system. You do not have to work your way up the ranks on every deal you are doing, but whatever you do, don't waste the time of the man or woman you have end-run to. Know what you want when you go to see a minister. Know where you can take it, because ministers like to be informed of what is going on, and it is far easier to stimulate the creative juices of the employees by having a minister say, "Figure out how to do this," as opposed to you saying the same thing to him.

Anyone in the government who tells you that he would rather you did not deal with his superior is probably finding a way not to work for you. The minute someone says, "I recommend that you deal with so-and-so on this, not the Honourable so-and-so," go to the Honourable so-and-so and deal with her. Ministers can do amazing things to help you because they can inspire civil servants like no other people on earth, I can assure you.

What can we do within the Ministry of Tourism? As it relates to what we have talked about today, we are not specific project developers, but we are planners and assistants, advocates and brokers. If you need an advocate within the Crown or if you need someone to explain to you, free of charge, give me a call, give my staff a call, and we will be more than pleased to assist.

For twenty years we have spent a lot of time sitting around in rooms telling ourselves how good we are, as opposed to telling ourselves where we need to go. The last thing I ever want to hear at a tourism forum again is the fact that we are the largest industry in the world. I think we have convinced ourselves. Now what we have to do is work externally from our industry and maybe convince some other people. In order to do that, we have to be an industry, and in order to be an industry we have to be somewhat self-reliant. It will be a great day when government is no longer perceived in the leadership position of the industry and the industry takes over for itself. You should be driving us, not the other way around. We shouldn't be coming to you twice a year with marketing plans as to what we are going to do around the world. You should be coming to us and telling us where we should market. That will be the day, I think when tourism is recognized by government as a strong force equal to the Council of Forest Industries or the Mining Association of B.C.

That's the day when the professionalism of the industry will probably take incredible leaps. You don't have to take it from us. It's time you started telling us what to do.

Questions and Answers

Question:

What is your vision? How do you see this industry? What it will do in the next five to ten years?

Doswell:

If we are going to take a look at what will happen in the next five to ten years, the first thing we can do is project growth. We can project growth right up to January

1st, 1991. After 1991, we have to see what will be the impacts of the value-added tax and other federally inspired transfers of taxation from the resource sector to the service sector.

In terms of a vision for British Columbia, we are all driven from one statement: Supernatural British Columbia. If you would have told me four years ago that I would become an environmentalist, I would have really laughed hard. But I have become a very dedicated environmentalist, because we cannot continue to sell British Columbia unless it is clean and green and friendly. We can't sell a clear-cut vision of the north. We have a hard time doing strip mine development along tourism corridors. The future of tourism will develop according to customer demand, not according to government vision or even developer vision. It will not be driven by industry ideas, it will be driven by customers, and in that way it will develop a rational and modest approach.

The major areas that will probably develop? I would say that southern Vancouver Island is potentially a major hot spot for development of fairly large resort properties. But please remember that the attendance of southern Vancouver Island is limited by a series of boats, and until that changes you don't have room for a 2-million-admissions-per-year product.

The next exciting area that will probably develop in B.C., is Invermere and the Columbia Valley. That will probably be the number one golf destination of the province. There is some really good potential with the Alberta market, and also with the Spokane markets and the other markets coming up out of the States.

The Okanagan is going to wait a bit. It is not going to wait a long time, but the new development will be slower because the area is already developed. The north will develop in small products.

The vision I have is not of controlled development (because controlled implies that we would do something to control it) but customer-controlled development that is sensitive to environmental concerns and sensitive to the lifestyles of the people of B.C. If we aren't sensitive to our residents, pretty soon we will have backlashes that we have seen in other tourist areas of the world.

It will be a big industry here—a very big industry, far larger than it is now—by the year 2000.

Chairman's Wrap-up

Bill Rowe
Senior Vice President, Associated Airlines, Air Canada
Chairman, Tourism Industry Association of Canada (TIAC)
Montreal, Quebec

Ladies and gentlemen, this concludes our two-day session, and what a session it has been indeed. When I was asked several months ago to be the chairman for this particular event, I didn't realize what a task following twenty-two speakers would be. They were all great speakers, each in their particular field. My role at this juncture is to say a few words to wrap up.

Several recurring themes have emerged from this conference. Throughout almost all the presentations was the theme "quality of service." Most speakers mentioned it in one form or another through language familiarity, attitude, or just good plain horse sense and being human with one another. We are now into a tourism era of quality, not only service, but product as well.

Coupled with that is the quality of management dwelling, I thought, in two main areas. One is the leadership in developing the attitude of personnel. It's one of Rowe's rules of the road—and I will give it to you at no cost— that the speed of the gang is indeed the speed of the boss. And the boss really does have to set an attitudinal framework within which personnel can work. One of our speakers was particularly cogent in this regard, putting through the idea that we need to ensure that management, not only supervisory management, but top management in the tourism business, have quality, have growth, and set the tone and the attitude for the quality of the service and the quality of the product.

The other thing that came through from quality of management, was the constant need for cost control in this business. There is no question that costs are going up. There is no question that the cost of the product to the consumer will rise, and we as management must diligently control the cost so that it does not get out of hand, so that the consumer gets value for money, and that we as managers of the business get value in our profit, that is, value back for our efforts. Cost control is every bit as important in this business as the marketing thrust; marketing just has a little more sex appeal to it.

Without good cost control and top quality management, there simply won't be the return that will keep us in business, allow us to refurbish our plant and charge reasonable prices, so that we get the volume that all of us want.

There is also an industry challenge regarding the training opportunities that are required throughout the industry, from the most junior employee to the most senior one. How do we meet those continued training requirements in the new and changing environment? The tourism industry is not what it was twenty years ago. It is changing constantly and it will change even more as an aging and more affluent population bring demands upon the hospitality industry that simply must be met. Those who are successful in meeting it will be successful on their bottom line.

What is government's role? The role of government came through quite clearly. We know a lot of things that they are not going to be able to do as the future unfolds. But a number of our speakers noted that one of the things government could do is to provide stability of the environment and security of the individual.

Stability and security came through as one of the prime requisites for a good and continuing tourism plan. If your clientele can't feel secure, can't feel safe, if the business environment and the governmental environment is not stable, then investors won't come in. Those two are intrinsically bound. Government plays a catalytic role. It is still very vital for many, many projects, particularly those outside major centres.

One example which came through for British Columbia, western Canada, and Canada in total is the rehabilitation of existing plants, industrial waterfront, and declining commercial areas. How could they be rehabilitated into a productive tourism environment? We have seen several examples of that in Vancouver, in the Lower Mainland, and in other parts of British Columbia and Canada as well. There are some very good examples where rehabilitation has taken place. As it ages and moves toward the future additional maintenance and investment will have to come and government can play a catalytic role in that regard.

Marketing leadership abroad is still required in this business and we often look far too much to government for that. Our last speaker noted that the industry really should be leaning more thoroughly on the marketing side. I think that will come very quickly, but it has got to come even faster than the present rate. We really do need to help government focus what they spend abroad on marketing: where do we think it should go and what returns do we expect it to bring?

Of great topical interest right now is the framework of taxation and what it is going to do to this business. We have heard several speakers most eloquently in that regard and I know in our networking sessions during luncheons and dinners these last two days that this has been an important topic. As Tourism Industry Association chairman in Canada, I get that from coast to coast. It is a real concern. We must have a voice that speaks more thoroughly on it. You cannot escape taxation because we must pay for governmental services, no question, but its application throughout Canada, the impact on the industry, and our ability to cope with changes in taxation are coming to the forefront as well.

The investment challenge of course, was the theme of this whole conference, and investment challenges in a changing market seemed to be the overriding issue. We have the challenge of an aging population, where the population bulge will move into the 40- and 50-age group and beyond as we reach the turn of the century, as we reach Tourism 2000. That brings investment challenges because the clientele will probably be more affluent and infinitely more demanding.

There is the challenge of how to cope with and tap and live with offshore investments because it is a two-edged sword. It is not just what they will do for us but often what we have to do for them, and so several of the speakers focussed in on that dimension. It does cut both ways; offshore investment is necessary, but we should understand and learn how to live with it and cope with the benefits, as well as some of the constraints that it brings to this industry.

We talked about "short break" markets, how the market is changing very fast from 7- and 12- and 14-day vacations into 2- and 3- and 4-day vacations, and what that means in the investment side as well. How do we tap that type of new and changing demand? The short break market is probably very upscale, probably very demanding, and probably a good return if we can find a way to tap it.

Caution was expressed by and about large financial institutions. Even though tourism is such a huge business, large institutions inherently have a concern about what they view as a very marginal and thin-margin business. We have to cope with that and polish up our presentations.

We have seen quite widely varying viewpoints on return on investment, from offshore investment having a very long-term return on investment to North Americans having a relatively short horizon. How do we marry those two together, and how do we maximize the opportunities that both bring to us?

Speakers addrssed the buying of existing establishments versus starting new ones. The offshore investors are very cautious about very new ventures, wanting to get into the more proven investment side.What does this mean to the entrepreneur in British Columbia and in Canada as a whole? How do we sell one business and start up another? Or are we going to be continually employees of offshore investment concerns? How do we start new businesses when offshore investment might be quite cautious about doing that? Is that a new role, an emerging role for Canadian and North American investment?

We heard that properties generally do not lend themselves to multiple use in the tourism business. Most tourism plants are single-use entities. Frequently they do not have multiple-use potential. This limits investment opportunities and may raise the necessary return on investment that people with money are looking for. Is there a way this industry can find to build a plant that has the possibility of multiple use?

There is a need for bold vision. What can we do with what we have? We heard some very exciting things about what is going on in California and on the Gold Coast of Australia, where some of the physical environmental attributes are perhaps stronger than what we have in British Columbia or in Canada as a whole. But we do have an environment to work with. We do have an exciting "Supernatural" province here that can be exploited. How do we work with what we have? How does the small community get in on tourism without having to go into a mega investment project? How can a city the size of Vancouver or Victoria, with an existing plant and a well known spectrum, develop it even further? We need vision and we need to work solidly and confidently with the materials that we have on hand to make them grow.

If there was one overriding financial theme that came through to me in the conference, it was the importance of cash flow. Cash flow to stay in business. Cash flow to go to the bottom line of profitability? But most importantly, what I picked up was the absolutely vital role that cash flow plays in investor analysis. The investor is going to put money into this business. Several of our speakers dwelt heavily on the importance of demonstrating a good cash flow. That might well bring money of a long-term nature where normally we would be looking for a short-term payoff. So in big letters, cash flow, and behind that, management expertise and management reputation—a track record. With these things coupled together properly, most projects would float faster and float easier.

If the project is filling a real need in a marketable location, financing can be found. One of our speakers dwelt upon a new and emerging type of creative financing that, if you are like me, you don't quite understand completely, but you know is there and you have seen used. Indeed, there will be many new creative financing possibilities available as the 1990s start to emerge that traditionally the tourism industry has not attracted, but that have been available for over a decade in other industries.

Solid cash flow, solid leadership, solid expertise—if you haven't got it yourself the message seems to be hook on with people who do. That will make the project float much easier in the financial world and give you the ability to sell investors your properties and projects. All business is still a gambling business. There is no surety that any business is going to succeed. But a number of speakers indicated that we can certainly guarantee failure by simply not paying attention to some very basic business principles. Tourism is no different from any other business in that respect.

As I mentioned in my opening remarks yesterday, the industry is at a developmental crossroad. That is why the theme of this conference was so important at this place and time. We are really exploring where we are going to get the money, and how we are going to cope with a changing governmental environment and a more demanding investment market. How do we bring those two together? That is certainly going to be one of the overriding themes of the 1990s.

APPENDIX 1: RESOURCE PEOPLE

Forum Convenor

Paul St. Pierre was engaged for several years in tourism, recreation, and community planning related to major energy developments in British Columbia. Subsequently he worked as a planning, marketing and management consultant in tourism before assuming his present position as Director of Tourism Programs, Simon Fraser University at Harbour Centre. In his capacity at the university, Mr. St. Pierre creates seminars, conferences, and management development programs for the tourism industry. He also serves as Chairman of the Educational Committee of the Tourism Industry Association of B.C.

Program Development

Ann Pollock, Principal of the Tourism Research Group, has focussed exclusively on tourism-related projects in western Canada over the past sixteen years. She has developed a wealth of knowledge about the tourism industry, markets and marketing channels, industry organization and government programs. In addition to analyses of tourism markets and products, Ms Pollock has focussed much of her work on improving the educational infrastructure that supports this industry. In 1986, she prepared "Tourism: The Quest for Professionalism," a major education and training strategy for the tourism industry in British Columbia. This strategy applied the data obtained from labour forecasts and needs assessment surveys into a practical action plan that obtained a high level of support from both industry and government.

Speakers

Richard S. Bell is a native of Waterloo, Ontario. He received his Bachelor of Commerce degree from Wilfred Laurier University. In 1980 he moved to Vancouver where he received his graduate degree in Business Administration from the University of British Columbia. He is currently Vice President of Corporate Development for Intrawest Properties Ltd. of Vancouver. In this capacity, Mr. Bell was responsible for the acquisition and financing of Blackcomb Skiing Enterprises Ltd.

Joseph M. Barak has been a trader in the Asset-Backed Securities group at ScotiaMcLeod Inc. since October 1988. His responsibilities include: working with issuers to bring transactions to the financial marketplace; the primary and secondary trading of mortgage-backed securities, including the management of inventory positions; and conducting on-going quantitative analysis regarding new products in the area of securitized finance. Prior to joining ScotiaMcLeod, Mr. Barak worked for a Canadian financial institution in various corporate finance capacities, most recently as Manager of Capital Markets. Responsibilities in this area included asset/liability management, and management of the mortgage-backed securities program.

James A. Doswell is currently serving as an Assistant Deputy Minister with the Ministry of Tourism and Provincial Secretary. He is accountable for overall leadership, management and control of services to the private sector aimed at stimulating development and facilitating improvements in the supply of tourism products in British Columbia. His achievements in this area include the creation of a non-subsidy-based development division within government. Mr. Doswell also administered the Superhost program which now boasts more than 90,000 graduates. Before joining the provincial government in 1985, Mr. Doswell spent nearly nine years in hotel management and land development. From 1976 to 1985, he served as a Manager of Century Holdings Ltd. of Vancouver, where he was responsible for all facets of design and development of hotel and other properties. He currently serves on the Canadian Council of Tourism Officials, and was Chairman of the Provincial Tourism Advisory Council from 1984–1985.

Sidney O. Fattedad is Vice President responsible for the Pacific Region, Canadian Airlines International Ltd. Born in 1944 in Guangzhou, southern China, he was educated in Hong Kong, articled with the international accounting firm of Peat Marwick, Mitchell & Company, and came to Canada and joined Canadian Pacific Airlines in 1968. Nine years later he was appointed the airline's Director of Corporate Accounting. In 1983 he was promoted to Comptroller of the airline.Mr. Fattedad is President and member of the Board of Directors of Transpacific Tours Ltd., a wholly-owned subsidiary of Pacific Western Airlines Corporation, specializing in the operation of inbound tours to Canada. He is also a member of the Certified General Accountants Association of Canada and the CGA Association of B.C., where he serves as a member of the Audit Committee.

Martin J. G. Glynn has worked for the Hongkong Bank of Canada since 1982 and has held his present position of Vice President and Manager, Main Branch since 1987. Previous to 1982 he worked in International Lending at Export Development Corp. in Ottawa and also at Williams Deacons Bank in London. He presently serves as Director and Past President of the Hongkong-Canada Business

Association.

John Gow was the Chief Executive Officer of Sunshine Village Resort in Banff for four years. In 1981 he became a principal in, and President of, Silver Star Mountain Resorts in Vernon. In addition to ski resort management he is the principal in John Gow Consultants. He has twice served as President of the Canada West Ski Areas Association, and is currently Chairman of the Board. He also serves as Chairman of the Board of the Pacific Rim Institute of Tourism .

Neil John Griggs is Managing Director of Neil Griggs and Associates Pty. Ltd. of Australia. Mr. Griggs' has been President and Director of the Whistler Land Village Company Ltd. and Director of the Planning Institute of British Columbia. Since moving to Australia, Mr. Griggs has been involved in many major projects including the massive Sanctuary Cove development where he was project manager.

Tom Hockin currently serves as Minister of State, Small Business and Tourism for Canada. Previously, Mr. Hockin served as Minister of State (Finance). His responsibilities included the offices of the Superintendent of Financial Institutions as well as tribunals governing Customs and Tariffs. Mr. Hockin's experience in the Ministry of Finance enables him to bring to the tourism portfolio valuable insight into vital issues such as sales tax reform, international trade and customs.

George W. Kyte, prior to assuming his responsibilities as Vice President, Internal Audit and Program Evaluation for the Federal Business Development Bank in 1984, had spent his banking career in the lending activities of the Bank's field network of branches which stretches from coast to coast. For almost twenty years he was directly involved, in increasingly responsible positions, with the assessment and authorization of lending proposals of which tourism-related loans formed a substantial proportion, both in urban and rural settings.

Clive Michael Leigh is a Chartered Surveyor and Partner with Jones Lang Wooton where he manages the International Hotel and Leisure Department in their office in Hanover Square, London. Mr. Leigh has over twenty years' experience in the commercial property market and has been involved with major hotels over the last ten to twelve years in the United Kingdom and on the continent of Europe. His approach to hotels is influenced by both his background in real estate and a business management course in Canada, which resulted in a Master's Degree in Business Administration from U.B.C.

Krishna Nair worked in both insurance and taxation prior to joining the English Tourist Board in 1980. Since that time he has worked on most of the major development projects that have appeared in England over the last few years and was responsible for the largest grant ever awarded ($1.5 million) to the Dutch Company, Center Parcs, to set up their first holiday village in England. Mr. Nair is presently Assistant Director in the Development Division of the ETB with a specific responsibility for joint projects with the private and public sector to develop the tourism potential of selected inner-city locations.

Yasushi Anthony Ogawa is President and Chief Executive Officer of IPEC Inc., IPEC International Inc., IPEC Canada Inc. and Comline International Inc. Prior to establishing IPEC in 1983, Mr. Ogawa worked as Advertising Sales Director and then Managing Director in Asia, for Life Magazine. In 1976 he became President of Time-Life Educational Systems Inc., and in 1980 became Managing Director, Asia for Time-Life Books Inc. Mr. Ogawa has been involved in many tourism investments in the Lower Mainland, including the 1988 purchase of the Rosellen Suite Hotel in Vancouver and the Nancy Greene Lodge and Crystal Lodge in Whistler.

Robert F. O'Neill is President of Coast Hotels, and both President and Chief Operating Officer of both National Caterers Ltd. and National Structures Ltd. based in Vancouver, British Columbia. He is responsible for thirteen hotels throughout western Canada, and all of the companies' operations in remote site camp rentals and construction. Mr. O'Neill was appointed President of National Caterers in 1980, assuming overall responsibility for its operation. National has been directly involved in many major pipeline projects, most recently the total turnkey supply of all camps and catering on the High Arctic Norman Wells to Zama Oil Line and the C.P. Rail Rogers Pass Tunnel. Coast Hotels was a family-owned business operated by the O'Neill family until the purchase of the shares of the company by Okabe Co. Ltd. of Tokyo, Japan in November of 1988. Mr. O'Neill was appointed President of the company after the purchase.

P. A. Palmer has worked for the Royal Bank since 1961 and has held numerous positions with the company, many of which have involved developing service innovations and improving sales methods. As Vice President, Corporate Marketing and Sales, Mr. Palmer is responsible for global marketing and policies and plans, along with the development of business and sales resources in the Corporate Banking Division. Mr. Palmer is an active member of various business, professional and academic groups as well as national, charitable organizations.

Skip Palmer is President of Management Resources, a California-based company which specializes in servicing the leisure, travel and hospitality sector. In this capacity he has managed several assignments in recent years including a heavily themed destination resort; a major five-acre urban redevelopment with a substantial leisure component, three international standard theme parks, and two financially successful indoor entertainment complexes. His responsibilities have given him unique international experience with projects in Australia, Portugal, Spain, France and England. Some of his career highlights prior to joining Management Resources include his work with the Walt Disney Company and the Grundy Organization and serving as Chairman of a major Professional Golf Association tour event.

Pamela D. Paul serves as Vice President, Travel Marketing Worldwide for the American Express Travel Related Services Company Inc. In her eleven years with American Express, she has had extensive sales, marketing and general management experience through positions encompassing the wholesale tour and package business, retail agencies, business travel, and membership travel services. Previously, she spent ten years as a management consultant with McKinsey & Co. Inc., specializing in consumer marketing strategy. While with McKinsey, she worked in the United States, Canada, Europe and Africa.

S. Gordon Phillips, Principal, Economic Planning Group, Ontario has extensive experience in management and in tourism consulting. He has been the General Manager of a Crown corporation with responsibilities for the management of both a cruise ship and a destination resort, and was for some time a senior officer with one of Canada's major escorted-tour companies. In his consulting activities, he has specialized in the development of tourist facilities, particularly resorts and commercial attractions. He has frequently lectured on tourism, most recently for the Tourism Industry Association of Canada and the World Tourism Organization in Mexico City.

Bill Reid was first elected to the British Columbia Legislature in 1983 and again in October of 1986. He has served as Government Whip and is presently Minister of Tourism and Provincial Secretary. He chairs the Cabinet Committee on Cultural Heritage and sits on the Cabinet Committee on Environment and Land Use, the Cabinet Committee on Regional Development, and the Cabinet Committee on Vancouver International Airport. Mr. Reid is also a member of the Select Standing Committee on Tourism and Environment. He entered municipal politics in 1973, serving as an alderman for Delta until 1978. In that year he was appointed to the provincial Urban Transit Authority Board. He was Chairman of the Board of Metro Transit Authority from 1980 to 1984 and has also served as National President of the Kinsmen Clubs of Canada.

Patrick Reid currently acts as the Chairman of Airshow Canada. Prior to his last posting abroad as Consul General of Canada in San Francisco, he served for five years as Ambassador and Commissioner General for the 1986 World Exposition in Vancouver. In 1962, he became Director of the Canadian Government Exhibition Commission. He has served as Canada's Commissioner General at many world expositions, including the Triennale di Milano, Italy, in 1964 and 1967; the San Antonio Hemisfair in 1968; the 1970 World Exposition in Osaka, Japan, as well as Expo 74 in Spokane, Washington, and the 1975 World Exposition in Okinawa, Japan. He was Chairman of the College of Commissioners General, representing all foreign participants at Osaka and Spokane. Prior to becoming the Expo 86 Commissioner General, Mr. Reid was based in London, England, where he was the Minister at Canada House. Concurrently, he was President of the Paris-based International Bureau of Expositions, a post he relinquished in December 1981. He was invested into the Order of Canada in 1987.

W. J. A. (Bill) Rowe, Senior Vice President, Associated Airlines, joined Air Canada in June 1952. He has held a number of management positions, both in operations and marketing, including Vice President, Atlantic Canada and Vice President, Western Canada, becoming Vice President Sales & Service, Canada, in 1985. Prior to his present position he was named Senior Vice President, Passenger, Canada, September 1986. Most recently, in January 1989, Mr. Rowe was appointed to represent Air Canada's investment interest in subsidiary airlines.A member of the Executive Committee of the Western Transportation Advisory Council and Chairman of the Tourism Industry Association of Canada, he is also a member of the Council and previously served as a Member of the Universities Council of British Columbia. In 1967 he was awarded the Canada Centennial Medal.

Nami Thiyagaratnam directs the Hospitality and Tourism Division at Price Waterhouse, Vancouver. Prior to joining Price Waterhouse, Nami held several executive positions with international tourism and hospitality management organizations in Africa, the Far East and the U.S.A. They include the Zambia National Tourism Bureau, the Ceylon Tourist Board and the Nigeria Hotel Association. As Director of the Hospitality and Tourism Group, Nami has conducted a wide variety of special assignments for provincial, national and international clients. A graduate of the University of London, England, Nami also holds a Master of Professional Studies degree in Hotel Administration from Cornell University in New York. He trained as an accountant with Ernst Whinney in Sri Lanka and subsequently moved from accounting into management positions in several different countries. He holds full membership with the Hotel, Catering and Institutional Management Association in London, England. Recently he was appointed as a Director and Executive Committee Member of the Tourism Industry

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Ian Frederick Thomas is the President of Thomas Consultant Inc., an internationally recognized shopping centre and retail consulting practice with offices in Canada and Australia. Mr. Thomas also assisted in the formation of Retail Management Consultants Inc., a subsidiary firm specializing in management consulting to major retail chains. Mr. Thomas has been involved in some of the largest and most exciting retail developments throughout North America and Australia. Mr. Thomas was educated in Sydney, Australia as a Chartered Accountant before being transferred in 1971 to Toronto as Assistant to the President of an international consulting engineering firm. In 1979 he formed the company that bears his name. Mr. Thomas is presently the B.C. Director for International Council of Shopping Centres, and a Director of the Urban Development Institute.

Robert H. (Bob) Wright is President and Chairman of the Oak Bay Marine Group of Companies which are primarily involved in the fishing, recreation and tourism industry. The Oak Bay Marine Group was started in 1962 and includes operations in both Canada and the United States. In addition to his direct business interests, he is a Director and Vice Chairman of the B.C. Ferry Corp., a Commissioner for Canada on the Pacific Salmon Treaty and Advisor to the Fisheries Minister on the Pacific Area Regional Council. He is also Co-Chairman of the Salmon Sports Fishing Management Committee of British Columbia, a member of the Sports Fishing Advisory Board, and a member of the Pacific Resource Council. Mr. Wright serves as a Director of the Victoria Marine Resources Centre, a non-profit organization which provides assistance to sick, injured or stranded marine mammals. He is a life member of the International Association of the Aquatic Animal Medicine and also a member of the Marine Operators Association and the River Inlet/Hakai Pass Sports Fishing Association, as well as the Victoria Attractions Association. In 1988 Mr. Wright received the A.B.B.A Marketing Award and was also named the Chevron Mariner of the Year. Past awards include the Ambassador of Tourism award for British Columbia in 1987, Man of the Year (Victoria) and two consecutive years of the Daily Colonist Compleat Angler award.

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